

1

September 1988

FINANCIAL MANAGEMENT

Continued Top Management Support Needed to Improve HHS' Accounting Systems

AD-A199 731



DTIC
ELECTE
S OCT 05 1988 D
H

DISTRIBUTION STATEMENT A

Approved for public release;
Distribution Unlimited



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-228763

September 29, 1988

The Honorable Otis R. Bowen, M.D.
The Secretary of Health and
Human Services

Dear Mr. Secretary:

^a This report presents the results of our review of the Department of Health and Human Services' (HHS) financial management environment and the Department's effectiveness in accounting for and controlling funds and other resources and reporting on its operations. We found that key accounting and related internal control systems currently operated by HHS have serious weaknesses which adversely affect the Department's ability to effectively manage its multibillion-dollar operations. Also, many of its financial reports are unreliable and cannot be derived from the accounting systems.

HHS has shown a commitment to strengthen financial management and has developed a new plan aimed at improving its accounting systems and correcting its long-standing problems. GAO believes the plan is properly focused and is a good foundation for action. Top management's continued commitment is essential if this plan is to succeed and the Department's financial system environment is to improve.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and other interested parties. Copies will also be made available to others upon request.

Sincerely yours,

Frederick D. Wolf
Director

Executive Summary

Purpose

The Department of Health and Human Services (HHS), with funding of about \$425 billion for fiscal year 1988, accounts for approximately 37 percent of the President's federal budget authority request. To accurately account for such large sums requires effective systems of accounting and internal controls to monitor outlays and ensure that government assets are adequately safeguarded.

This report describes the Department's financial management environment and its effectiveness in accounting for and controlling funds and other resources and accurately reporting its operations.

Background

HHS is the largest civil federal agency. About 95 percent of its funds are for entitlement programs such as Social Security, Medicare, and Medicaid. The remaining 5 percent cover discretionary programs, such as direct loans, loan guarantees, and cancer research.

HHS' programs fall into three categories:

- retirement, disability, and medical insurance benefit payment programs;
- public assistance and medical payment benefit programs for the economically disadvantaged; and
- medical research (for food, drug, and cosmetic regulation) and various human development initiatives.

The money to pay for these programs comes primarily from (1) employer and employee payroll tax deductions, and (2) funds appropriated from the general fund by the Congress.

Results in Brief

Accounting For

1. ☒ Full
2. ☐ Partial
3. ☐ None

Key accounting and related internal control systems currently operated by HHS have serious weaknesses which have adversely affected the Department's ability to effectively manage its multibillion-dollar programs and operations. Billions in appropriated funds and other financial resources are not adequately accounted for, and many of the Department's financial reports are unreliable and cannot be derived from the accounting systems. The Department has long recognized these problems, but past corrective actions have not been successful.

HHS has shown a commitment to strengthen financial management. HHS has developed a new financial management plan aimed at improving its accounting systems and correcting its long-standing problems. GAO believes the plan is properly focused and is a good foundation for action.

A-1

Top management's continued involvement and commitment are essential for the success of this plan and the improvement of the Department's financial system environment.

Principal Findings

Accounting Systems Are Unreliable

The Department's current accounting systems do not effectively account for and control billions of dollars in resources. Differences amounting to billions of dollars exist between the balances recorded in the HHS operating divisions' accounting systems and internal and external financial reports. As a result, HHS does not know the amount of (1) funds it has available, (2) advances made to grant recipients, and (3) property it is responsible for controlling. Also, HHS is not aggressively pursuing the collection of about \$31 million in audit disallowances. Collection efforts have been hampered by inadequate documentation of the audit disallowance, untimely recording of accounts receivable, and the lack of written debt collection procedures.

Further, the Social Security Administration continues to experience serious problems in accurately accounting for hundreds of millions of dollars in overpayments made to beneficiaries because of delays in implementing a new debt management system. (See chapter 2.)

Past System Enhancement Efforts Were Unsuccessful

HHS has long been interested in improving its accounting system. Over the past 10 years, HHS has initiated two major departmentwide accounting system enhancement efforts. Neither was successful, partially because HHS' operating divisions were not supportive. (See chapter 2.)

Financial Integrity Act Report Contains Inadequate Disclosure

While HHS is aware of its accounting system problems and has acted to improve accountability, its fiscal year 1987 Financial Integrity Act report did not adequately identify all material accounting system weaknesses. Without adequate disclosure, the President, the Congress, and the public are not fully aware of the Department's problems and the efforts needed to correct them. (See chapter 2.)

Efforts Underway to Improve Accounting Systems

HHS has taken action to refocus its accounting system improvement efforts. The Department has developed a financial management plan which is aimed at improving the efficiency of its accounting systems and addressing the long-standing problems. This current effort, referred to as the Phoenix Project Plan, has the support of the Department's operating divisions. A good foundation has been set, and the Department has shown a genuine interest in developing modern accounting systems. It is now critical that this effort be sustained over time and have the continuing support of top management if it is ultimately to succeed.

GAO believes some additional actions would further enhance the Department's ongoing efforts and thereby increase the likelihood that the Phoenix Project Plan will succeed. One action would be to integrate its programmatic system enhancement efforts with the Phoenix Project Plan; another would be to establish a focal point for financial management in each operating division. (See chapter 3.)

Recommendations

GAO is making several recommendations to the Secretary to help strengthen the operating divisions' accounting and internal control systems. GAO also recommends that the Secretary closely monitor the current redesign efforts through periodic briefings and progress reports from the Assistant Secretary for Management and Budget, the Department's Chief Financial Officer. This will help to ensure that known system problems are corrected. (See chapters 2 and 3.)

Agency Comments

HHS generally concurred with the recommendations GAO made to improve its financial management systems. The Department believes that the recommendations regarding its system enhancement efforts under the Phoenix Project Plan are consistent with ongoing efforts to modernize the operating divisions' accounting systems. HHS, however, did not completely agree with the report's characterization of its financial operations. The Department believes that HHS is an intensely complex fiscal environment and that more credit should have been given to the Department's system enhancement efforts under the Phoenix Project Plan.

GAO believes the report accurately reflects the current status of the HHS operating divisions' accounting and internal control systems. The results of GAO's review were based upon an analysis of the financial information that was reported in the accounting systems and shown on the financial reports the Department submitted to Treasury. The accounting system

problems GAO identified were discussed with appropriate operating division officials, who for the most part were unable to explain them. GAO believes the Phoenix Project Plan is an important first step in the development of modern accounting systems at HHS, and the report credits the Department with this initiative. Improved accounting is ultimately dependent on the operating divisions' new accounting systems becoming operational in the future and will require a sustained commitment and priority.

The report has been revised to indicate the corrective actions the Department has initiated subsequent to the completion of GAO's review.

Contents

Executive Summary		2
Chapter 1		8
Introduction	Programs Are Diversified	8
	Financial Management Structure	10
	Objectives, Scope, and Methodology	11
Chapter 2		14
HHS Lacks	Financial Management System Requirements	14
Accountability and	HHS' Accounting System Problems Are Long-Standing	15
Control Over Its	Accounting Systems Are Unreliable	17
Resources	Reports on Financial Position Not Always Supported by General Ledgers	23
	Past System Enhancement Efforts Were Unsuccessful	25
	HHS' Financial Integrity Act Report Needs to Adequately Disclose Status of Its Accounting Systems	27
	Conclusions	29
	Recommendations	30
	Agency Comments and Our Evaluation	30
Chapter 3		33
Top Management's	Importance of Financial Leadership and Planning	33
Continued	Current Efforts to Improve Accounting Systems	34
Involvement Is Needed	Additional Efforts Needed to Enhance Phoenix Plan	38
to Improve HHS'	Conclusions	42
Financial Management	Recommendations	43
	Agency Comments and Our Evaluation	43
Appendixes		
	Appendix I: Financial Management Structure of the Department of Health and Human Services	46
	Appendix II: HHS Operating Divisions' Accountability and Control Over Resources	48
	Appendix III: Comments From the Department of Health and Human Services	65
Tables		
	Table 3.1: Age of the Department's Primary Accounting Systems	35
	Table 3.2: Anticipated Costs and Milestones for Implementing System Enhancement Efforts	38

Table II.1: Advance Balance Differences Between Operating Division's General Ledger and HHS' Payment Management System	54
--	----

Abbreviations

ADP	automated data processing
GAO	General Accounting Office
HHS	Health and Human Services
NDMS	National Debt Management System
OMB	Office of Management and Budget
SSA	Social Security Administration

Introduction

The Department of Health and Human Services is the largest civil federal agency. In one way or another—whether it is mailing out social security checks or making health services more widely available—HHS touches the lives of more Americans than any other federal agency. HHS fulfills these responsibilities through three broad program areas: (1) retirement, disability, and medical insurance benefit payment programs, (2) public assistance and medical payment benefit programs for the economically disadvantaged, and (3) medical research (for food, drug, and cosmetic regulation) and various human development programs.

The Department is headed by the Secretary of Health and Human Services, who is supported by six major operating divisions in carrying out the Department's responsibilities and administering its various programs. The six major operating divisions are the Office of the Secretary (which includes nine staff offices¹ and the Department's regional offices), the Family Support Administration, the Health Care Financing Administration, the Office of Human Development Services, the Public Health Service,² and the Social Security Administration (SSA).

For fiscal year 1988, the President requested over \$425 billion in budget authority for HHS, which represents over 37 percent of his budget authority request. These funds are provided primarily from

- employee and employer payroll taxes under the Federal Insurance Contribution Act and Self Employment Contribution Act, and
- funds appropriated from the general fund by the Congress.

Programs Are Diversified

HHS programs cover a wide spectrum of activities involving federal, state and local government agencies, educational institutions, and various health insurance carriers. For example, SSA is responsible for making benefit payments to over 40 million Americans. For fiscal year 1988, SSA estimates that its benefit payments will exceed \$226 billion, which is over one-fifth of the federal budget. SSA also is responsible for making

¹The nine staff offices are the (1) Office of Assistant Secretary for Management and Budget, (2) Office of Assistant Secretary for Legislation, (3) Office of Assistant Secretary for Personnel Administration, (4) Office of Assistant Secretary for Public Affairs, (5) Office of Assistant Secretary for Planning and Evaluation, (6) Office of General Counsel, (7) Office of Civil Rights, (8) Office of Inspector General, and (9) Office of Consumer Affairs.

²The Public Health Service is comprised of six organizational components: (1) the Agency for Toxic Substance and Disease Registry, (2) the Alcohol, Drug Abuse, and Mental Health Administration, (3) the Center for Disease Control, (4) the Food and Drug Administration, (5) the Health Resources and Services Administration, and (6) the National Institutes of Health.

over \$900 million in payments to selected beneficiaries under the Black Lung program.

The Health Care Financing Administration administers two federal health insurance programs—Medicare and Medicaid. However, the day-to-day operations of both programs—authorizing and disbursing benefit payments—are administered by third party contractors. The day-to-day Medicare program operations are handled by health insurance carriers, while the Medicaid program operations are handled by numerous state, county, and local government welfare departments and offices. Under both programs, the Health Care Financing Administration is primarily responsible for (1) providing third-party contractors with federal funds to make benefit payments and (2) monitoring contractors' performance.

HHS also provides funds to participating institutions that train individuals in the health professions. The schools use the funds to make loans to eligible health profession students. HHS also provides funds for the building and operating of health care facilities. The Department operates six direct loan programs and three loan guarantee programs.

The six direct loan programs are the

- Health Resources and Services Administration Direct Loans.
- Health Profession Graduate Student Loan Insurance Fund.
- Health Education Loans.
- Nurse Training Loans.
- Medical Facilities Loan Fund, and
- Health Maintenance Organization Loans.

Under the direct loan programs, the federal government makes loans to applicants and then collects principal and interest over an agreed upon payback period. In essence, the Department acts as a banker. The President's fiscal year 1988 budget request estimated that at the end of fiscal year 1988, the Department would have over \$560 million in outstanding direct loans.

The three loan guarantee programs are the

- Health Profession Graduate Student Loan Insurance Fund.
- Health Resources and Services Administration Loan Guarantee Fund, and
- Medical Facilities Guarantee Fund.

Under the loan guarantee programs, an applicant secures a loan from a private financial institution, and the federal government guarantees to the financial institution the full payment of the loan if the borrower defaults. The President's fiscal year 1988 budget request estimated that at the end of fiscal year 1988 the Department would be guarantor for over \$2 billion in loans.

Financial Management Structure

The Assistant Secretary for Management and Budget provides advice and guidance to the Secretary on administrative and financial management matters, and provides for the direction and coordination of these activities in the Department. The activities include overseeing the preparation of the Department's budget, maintenance of the departmentwide system for developing and administering financial operating plans, and review and analysis of organizations and information systems.

The Department's individual operating divisions and their organizational components are responsible for carrying out HHS' financial management activities. These include accounting for and controlling the Department's resources and assessing its financial management systems for conformance with the Comptroller General's accounting principles, standards, and related requirements,¹ as specified in the Federal Managers' Financial Integrity Act² and the internal control standards³ issued pursuant to the act.

HHS operates 13 major financial management systems—seven primary accounting systems, three subsidiary financial systems, and three program financial systems. These systems are used to (1) record and control appropriated funds and other financial resources, (2) record summary

¹The GAO Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies. Specifically, appendix 1 of title 2 of the manual prescribes the accounting principles and standards. Titles 4, 5, 6, and 7 of the manual specify requirements governing claims; transportation; pay, leave, and allowances; and fiscal procedures, respectively. Also, agency accounting systems must comply with the Comptroller General's internal control and accounting system standards, as prescribed in appendixes II and III of title 2 of the manual, respectively, as well as requirements set forth in the *Treasury, Financial Manual and Office of Management and Budget (OMB) circulars*.

²The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b) and (c)) gives agency management the primary responsibility for maintaining adequate systems of internal control and accounting. The act requires agency heads to report annually to the President and the Congress on the status of these systems, and it holds managers responsible for correcting identified deficiencies.

³The GAO Policy and Procedures Manual for Guidance of Federal Agencies, title 2, appendix II "Standards for Internal Controls in the Federal Government." The standards were also published in a booklet in June 1983.

financial information on the financial results of program and administrative operations, (3) prepare financial reports for managers' use, and (4) prepare summary financial reports on the results of program and administrative operations and the status of appropriated funds required by individuals and organizations outside HHS. Appendix I provides a description of the 13 financial management systems.

The Department's operating divisions operate seven primary (general ledger) accounting systems, which in turn are supported by over 40 financial management subsystems, such as property, grants, and receivables. The Public Health Service's Health Resources and Services Administration performs the accounting for the Alcohol, Drug Abuse, and Mental Health Administration; the Family Support Administration; and the Office of the Assistant Secretary for Health. The Office of the Secretary performs the accounting for the Office of Human Development Services.

The Department's three subsidiary financial systems are operated by the Office of the Secretary. These three systems (1) provide personnel/payroll services, (2) process regional office financial transactions, and (3) record and control cash advances to contractors and grantees.

Of the Department's three program financial systems, two are operated by SSA and the other one is operated by the Health Resources and Services Administration. The two systems operated by SSA accumulate and track information on the various benefit programs it administers. The Health Resources and Services Administration's system is responsible for paying contractors for services provided in Indian Health Care facilities.

Objectives, Scope, and Methodology

The objectives of our review were to (1) identify and describe HHS' financial management systems, (2) determine if these systems effectively account for and control the Department's funds and other resources, (3) determine if these systems provide accurate and reliable information on the results of financial operations, (4) identify any major system weaknesses, and (5) examine HHS' actions to correct system weaknesses.

We conducted our review between October 1986 and January 1988 in accordance with generally accepted government auditing standards. Work was performed at the following locations:

- Office of the Secretary, Washington;
- Center for Disease Control, Atlanta;
- Food and Drug Administration, Rockville, (Maryland);
- Health Care Financing Administration, Baltimore;
- Health Resources and Services Administration, Rockville;
- National Institutes of Health, Bethesda, (Maryland); and
- Social Security Administration, Baltimore.

To identify and describe HHS' financial management systems, we reviewed policies and procedures pertaining to HHS' programs and organizations; agency descriptions of financial management systems; and previous reports by GAO, the HHS Inspector General, and HHS itself pursuant to the Federal Managers' Financial Integrity Act.

We interviewed financial management officials in the Department's operating divisions concerning the weaknesses identified during our review of their accounting systems. We also followed up on selected accounting system problems previously identified by GAO, HHS' Inspector General, and HHS itself, pursuant to the Federal Managers' Financial Integrity Act reports submitted to the President and the Congress for fiscal years 1983 to 1987.

We evaluated selected internal and external financial reports generated by the Department's financial management systems to determine if they contain accurate and complete information, and are useful to HHS in managing its financial and program operations. We tested the reliability of system information by comparing data among systems and against financial reports submitted to the Department of the Treasury dated as of September 30, 1986, which were the most readily available reports at the time of our review.

We also evaluated the Department's efforts to enhance its accounting systems by interviewing financial management officials at headquarters and the operating divisions and analyzing the Department's financial management system plan.

Chapter 2 of this report describes HHS' accounting and related internal control systems. It discusses the effectiveness of certain systems and whether these systems provide managers with reliable financial information on the results of operations. (Appendix II expands on the information presented in chapter 2.)

Chapter 1
Introduction

Chapter 3 discusses the Department's efforts to improve its accounting systems and the need for top management's continued commitment to improve financial management.

HHS Lacks Accountability and Control Over Its Resources

HHS continues to face widespread financial management system weaknesses which impair its ability to meet the objectives of good management and accountability. The Department's accounting systems do not provide complete and accurate financial information on the results of its program and administrative operations. These complex, serious, and long-standing problems adversely affect the Department's ability to accurately account for, control, and manage billions of dollars of resources. One major difficulty involves a failure to comply with established accounting policies and procedures. Furthermore, two unsuccessful attempts to implement departmentwide system enhancement initiatives have prolonged the problems.

The Department has generally acknowledged the serious problems in its accounting systems. In an effort to address this issue, the Department has, in conjunction with the operating divisions, revised its approach to modernizing its accounting operations and correcting its accounting system problems with the development of the Phoenix Project Plan. Chapter 3 discusses the Department's current efforts to improve its accounting systems.

Top management must stress to the operating divisions the need to comply with established accounting policies and procedures, such as performing periodic reconciliations between its accounting records and internal and external financial reports. Correcting the Department's accounting system problems will require a strong management commitment that is sustained across succeeding administrations.

Financial Management System Requirements

The Accounting and Auditing Act of 1950 makes the head of each executive agency responsible for establishing and maintaining adequate accounting and internal control systems. These systems are required to meet the accounting principles, standards, and related requirements prescribed by the Comptroller General. In addition, the Federal Managers' Financial Integrity Act of 1982, which reaffirms the concepts first embodied in the Accounting and Auditing Act of 1950, also focuses on the need to strengthen accounting and internal control systems. Specifically, the act requires that agency internal control systems be periodically evaluated and that the heads of executive agencies report annually to the President and the Congress on the status of their internal control and accounting systems.

Accounting system standards are published in the GAO Policy and Procedures Manual for Guidance of Federal Agencies. (See footnote 3 on

page 10.) According to these standards, agency accounting systems must be an integral part of the agency's total financial management system and must provide sufficient discipline, effective internal controls, and reliable and useful information.

As described in the standards, an accounting system is that part of the overall financial management system which provides the total structure of methods and procedures used to record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, or organizational components. It includes the manual and automated procedures and processes from the point a transaction is authorized (initiated) to the issuance of financial statements and management information reports containing the data in detail or summary form.

HHS' Accounting System Problems Are Long-Standing

Over the years, we and the HHS Inspector General have issued numerous reports on the serious weaknesses in the Department's internal control and accounting systems. These weaknesses adversely affect the Department's ability to effectively manage its multibillion-dollar programs and administrative operations. The following are some examples of the problems that have been identified:

- In our April 1984 report,¹ which comprehensively looked at HHS' financial management systems, we (1) found that the Department's disbursement systems for six benefit programs, with annual outlays exceeding \$200 billion, did not appear adequate to ensure the propriety of payments made, and (2) noted that the personal property systems appeared generally inadequate to ensure complete, accurate, and timely accounting for and control over the Department's investment in personal property. Additionally, many of the Department's financial management systems were not designed and operated to efficiently and effectively use available computer hardware and software resources.
- In 1987, we completed a comprehensive review of the management of SSA, and reported that its financial management activities are fragmented and given a low priority. Acting upon the recommendations in our report, SSA appointed a Chief Financial Officer and centralized all finance activities within the Office of the Chief Financial Officer.

¹Financial Management Profile: Department of Health and Human Services (GAO AFMD-84-15, April 9, 1984).

²Social Security Administration: Stable Leadership and Better Management Needed To Improve Effectiveness (GAO HRD-87-39, March 18, 1987).

- Because of substantial financial system weaknesses, SSA did not know if its records of individual workers' wages were accurate. Such errors have resulted in overpaying some social security recipients while underpaying others. As discussed in our previously cited report (GAO/HRD-87-39), SSA estimated that it overpaid about \$2 billion in 1984, but expected only a net recovery of about \$870 million, or 44 percent. In commenting on this report, HHS noted that actual SSA statistics for 1984 showed \$1.1 billion in recoveries—a net recovery of 58 percent. Regarding underpayments, SSA and the Internal Revenue Service have struggled for years to reconcile differences in their employee earnings files. In a September 1987 report,³ we said that for 1978 through 1984, SSA credited workers with \$58.5 billion less in earnings than did the Internal Revenue Service. We recommended that the Secretaries of HHS and Treasury direct the Commissioners of Social Security and Internal Revenue to work together in developing an action plan to reconcile the differences in earnings totals and to prevent their occurrence or reduce their frequency.
- In our April 1987 report,⁴ we noted that while SSA had made some progress and improvements by acquiring computer equipment and expanding the data communications network, it had not met the objectives of modernizing its software and implementing an integrated data base. We pointed out that the overall modernization effort has proven too large and complex for SSA to carry out—a concern that we had already raised in 1982. To address those concerns, we recommended that SSA redirect this effort by (1) revising the systems modernization plan to define system deficiencies, (2) identifying methods for correcting those deficiencies, and (3) reducing the modernization effort's scope to address the most critical systems deficiencies, especially software design.
- In 1986 and 1987, the HHS Inspector General issued several reports identifying serious system weaknesses in SSA's accounts receivable subsidiary systems. These included the understating of accounts receivable due to (1) weak procedural controls over certain benefit overpayments, and (2) a system deficiency which allowed the cashing of duplicate benefit checks to go undetected. In commenting on our draft report, HHS stated that SSA has developed and is implementing an action plan to correct these deficiencies.

³Social Security: More Must Be Done to Credit Earnings to Individuals' Accounts (GAO/HRD-87-52, September 18, 1987).

⁴ADP Systems: SSA's Modernization Efforts Need Redirection (GAO/IMTEC-87-16, April 10, 1987).

- In our February 1988 report,⁵ we pointed out that the Health Resources and Services Administration is experiencing problems in collecting delinquent receivables arising from its scholarship and guaranteed loan programs because of an inadequate debt management system, failure to follow established debt collection procedures, and staff shortages. Problems in the Health Resources and Services Administration's credit management and debt collection have been highlighted in the past by GAO and HHS Inspector General audit reports and a Public Health Service management review. For example, in 1982, we reported⁶ that HHS' failure to adequately manage the school-administered programs resulted in high delinquency rates.
- In our December 1987 report,⁷ we noted that while HHS' grants payment operations had improved considerably since the Payment Management System was implemented, some problems remained in accounting for and controlling these payments. Specifically, (1) the Payment Management System did not account for substantial amounts of receivables due from grant recipients, (2) cash advances to some grant recipients are charged to HHS appropriations based on estimates that are not subsequently adjusted, and (3) returning unused grant funds to the government is unnecessarily delayed because controls are not in place to ensure timely grant closeout. These problems were previously identified in our 1979 report.⁸

Pursuant to the Federal Managers' Financial Integrity Act, the Department has reported serious internal control and accounting system weaknesses over the years in the areas of grants management, property, debt collection, and fund control.

Accounting Systems Are Unreliable

Our current review identified continuing problems with the Department's ability to effectively manage its program and administrative operations because of serious weaknesses in its accounting systems. Key

⁵Debt Collection: More Aggressive Action Needed To Collect Debts Owed By Health Professionals (GAO AFMD-88-23, February 2, 1988).

⁶Actions Underway To Reduce Delinquencies In the Health Professions and Nursing Student Loan Programs (GAO AFMD-83-7, December 1, 1982).

⁷Accounting Systems: HHS Grant Payment Operation Has Improved and Additional Corrective Actions Are Underway (GAO AFMD-88-18, December 30, 1987).

⁸HEW Must Improve Control Over Billions in Cash Advances (FGMSD-80-6, December 28, 1979).

accounting systems operated by HHS' operating divisions do not effectively account for and control the resources entrusted to the Department. We found the following:

- HHS' operating divisions lack effective accountability for and control over billions of dollars in appropriation fund balances.
- Advances to grant recipients are not being properly accounted for.
- Collection of audit disallowances (costs claimed by contractors or grantees that were later disallowed through the audit process because they did not meet requirements contained in government contracting regulations or grant agreements) are not aggressively pursued.
- SSA's accounting for receivables due from benefit overpayments is inadequate.
- The Department cannot accurately account for hundreds of millions of dollars in property.

The Department must have effective systems of accounting and internal control with which to monitor these funds and ensure that assets of the federal government are adequately safeguarded. Appendix II contains a detailed discussion of the internal control and accounting systems problems we found at the HHS operating divisions, and these matters are highlighted below.

Accuracy of Appropriation Fund Balances Is Questionable

The Department's operating divisions lack effective accountability and internal control over billions of dollars in appropriation fund balances. We found unexpended fund² balance differences of over \$3 billion between their accounting records and the financial reports submitted to Treasury. The operating divisions did not know why these large differences existed because they had not periodically reconciled them. Consequently, they did not know the amount of funds they had available in various accounts. Likewise, the operating divisions did not reconcile large differences between the unobligated funds reported in their records and the reports forwarded to Treasury and, therefore, were not providing adequate fund control.

For example, as of September 30, 1986, the last fiscal year for which data was available at the time of our review, we found that the Health Resources and Services Administration's general ledger unexpended fund balance was \$3.1 billion more than the amount shown on the Year-

²The term "unexpended funds" generally refers to the obligated but not disbursed portion of an appropriation. In this context, the term also includes the unobligated portion of the appropriation.

End Closing Statement (TFS Form 2108) submitted to Treasury. (See page 50 for an explanation of the Year-End Closing Statement.) The differences were not reconciled. This problem has existed since the current accounting system was implemented approximately 10 years ago. In addition, the Office of the Secretary's general ledger showed an unobligated fund balance of about \$111 million for the Human Development Services appropriations, whereas about \$18 million was reported as unobligated on the Year-End Closing Statement.

Federal agencies are required to reconcile their unexpended fund balances with the amounts reported by Treasury to determine the correct amounts; HHS' operating divisions, however, did not adhere to this requirement. Instead, they reported back to Treasury the unexpended fund balances shown on the Year-End Closing Statements from Treasury. Therefore, to compensate for unexpended fund balance differences and to make their financial reports—Report on Financial Position (TFS Form 220) and Year-End Closing Statement—agree with Treasury's unexpended fund balances, the operating divisions made unsupported adjustments to accounts receivable, accounts payable, and advance amounts on these reports. For example, the Health Resources and Services Administration arbitrarily increased advances by \$600 million in one appropriation and increased accounts payable by \$200 million and \$400 million, respectively, in two other appropriations on the Report on Financial Position and the Year-End Closing Statement in order for its unexpended fund balance to agree with that of Treasury.

The operating divisions stated that they did not reconcile their fund balance differences for a variety of reasons. For example, the Acting Director of the Division of Accounting in the Office of the Secretary told us that reconciliations were not performed because they did not have sufficient staff. On the other hand, the Director of Fiscal Services at the Health Resources and Services Administration advised us that they lacked a monitoring system to ensure that this function was performed.

Failure to reconcile differences and to identify the causes of these differences promotes the making of unsupported adjustments so that agency and Treasury records are forced into balance. This in turn leads to inadequate accountability for and control over appropriated funds and a distortion of financial data on obligations, receivables, restoration and withdrawals reported to Treasury.

The problems we noted have plagued the Department for many years. In our report entitled Improvements Needed in Recording and Reporting

Appropriation Data at Fiscal Year End (FGMSD-76-63, February 17, 1977), we identified \$190 million in differences between the Health Services Administration's¹⁰ unexpended appropriation fund balance and Treasury's records, and we noted that these differences had not been reconciled. In addition, we noted that there was not adequate fund control, with millions of dollars of unsupported adjustments made to the accounting records so that they would balance with Treasury's records.

**Advances to Grant
Recipients Are Not
Adequately Accounted for**

The Department also lacked adequate accountability over advances to grant recipients. Although the advance balances in the operating divisions' general ledger systems and the Payment Management System—HHS' grant payment system—should agree, our analysis showed that they were substantially different. Consequently, program managers did not have accurate data to effectively monitor the billions of dollars in cash advances made to grant recipients annually.

For example, the Health Resources and Services Administration's general ledger advance balance for one appropriation was \$62 million less than that in the Payment Management System. In addition, the Office of the Secretary's general ledger showed a negative advance balance of \$2 million for one appropriation, whereas the amount in the Payment Management System was \$34 million. Operating division officials were unable to explain the cause of these differences because, again, periodic reconciliations between the two systems were not performed.

**Collection of Audit
Disallowances Not
Aggressively Pursued**

The Office of the Secretary is not aggressively pursuing the collection of about \$31 million in audit disallowances. Our review disclosed that its collection efforts were hampered by (1) inadequate documentation of the audit disallowance, (2) delays in recording the accounts receivable, and (3) the lack of written procedures for collecting audit disallowances. As a result, millions of dollars owed to the government may no longer be collectible.

September 30, 1986, information—the most recent information available at the time of our review—showed that the Office of the Secretary accounting system contained 82 audit disallowance accounts. These audit disallowances totaled about \$31 million and accounted for about 51 percent of the Office of the Secretary's total receivables. The Office

¹⁰The Health Services Administration is now a part of the Health Resources and Services Administration.

of the Secretary was only able to locate the case files for 73 audit disallowances valued at \$26 million. The nine missing case files had a value of \$5 million.

We reviewed the 73 case files and found that collection action on these receivables consisted primarily of sending the debtor three letters requesting repayment. Collection efforts generally ceased after the letters were issued. Part of the difficulty in collecting these amounts stemmed from the lack of written debt collection procedures describing the actions to be followed in these cases. Office of the Secretary officials stated that an attempt was made in 1984 to write the procedures, but the person assigned this responsibility was reassigned to another job.

The Department's problems in accounting for and collecting audit disallowances are long-standing. In our report, Federal Agencies Negligent In Collecting Debts Arising From Audits (AFMD-82-32, January 22, 1982), we found that federal agencies, one of which was HHS, did not (1) promptly account for audit disallowances or (2) aggressively pursue the collection of millions of dollars in audit disallowances.

In commenting on our report, the Department recognized the need to improve collection of audit disallowances and has taken corrective actions, including (1) the assignment of a systems accountant to the task of analyzing the problem and devising a corrective action plan, (2) the reorganization of operational activities into three operating divisions in a new Office of Financial Operations, and (3) the recruitment and selection of an experienced office director. The Office of the Secretary is also seeking a senior-level debt manager to oversee and direct these activities.

SSA's Subsidiary Accounts Receivable Systems Are Inadequate

Over the years, the HHS Inspector General has identified serious system weaknesses in SSA's subsidiary accounts receivable systems, which accounted for more than \$2.3 billion in benefit overpayments as of September 30, 1986. The weaknesses identified included (1) discrepancies between the collections recorded in SSA's Recovery of Overpayment, Accounting, and Reporting System and that reported by the SSA program service centers, and (2) weak procedural controls over the Old-Age and Survivors Insurance program and Disability Insurance program overpayments. As a result, SSA did not promptly account for and collect over \$200 million in benefit overpayments owed the government. (See appendix II for a detailed explanation of these overpayments.)

We followed up on the status of the accounting system weaknesses identified by the HHS Inspector General and found that the problems had not been corrected as of October 1987. Consequently, financial data recorded in SSA's subsidiary systems and passed on to SSA's general ledger system continued to be inaccurate and unreliable. Hundreds of millions of dollars in benefit overpayments also remained uncollected.

The Social Security Administration's problems in improving the accuracy of its accounts receivable subsidiary records have been compounded by its inability to effectively implement the National Debt Management System. This project began in March 1981 in order to develop a single cohesive system to control and account for all debts owed to SSA by the public. The project director informed us that SSA had spent approximately \$6 million as of June 30, 1987, to complete this effort, but problems had prevented the timely implementation of the system. According to SSA's Management Plan for Debt Management, dated April 1988, delays in implementing the National Debt Management System could be attributed to software deficiencies. For example, a validation of the system against functional requirements identified over 1,350 differences (including some programmer errors). The system validation occurred from July 1986 through June 1987.

In commenting upon our draft report, HHS stated that a redrafted plan to implement the National Debt Management System had been developed and coordinated with the HHS Office of the Inspector General and submitted to the Commissioner for her approval. HHS believes that implementation of this plan should resolve the problems SSA has experienced in this area.

Inadequate Control Over Property

The Department did not operate accurate and reliable accounting systems for controlling property. As a result, HHS lacked adequate accountability and internal control over hundreds of millions of dollars in property, increasing the risk of loss or improper use, and did not know the total dollar value of property it owned.

For example, we noted that the balance in the Health Resources and Services Administration's general ledger property account exceeded the amount shown in its property records by over \$400 million as of September 30, 1986. Of this amount, approximately \$231 million related to the Indian Health Service. According to Health Resources and Services Administration officials, property transactions such as dispositions

were not entered into the accounting system because necessary information on the appropriation account, which would have to be adjusted to reflect the change, was not provided. In addition, discrepancies totaling over \$20 million were noted between the general ledger and subsidiary property systems of the Food and Drug Administration, the Office of the Secretary, and the Health Care Financing Administration.

SSA had similar control problems. Its general ledger personal property balance was not reconciled to its two subsidiary systems—the Property Accounting System, which controls personal property, and the Information Technology System Inventory System, which controls property related to automated data processing (ADP). As a result, there were no assurances that all property transactions were being processed by the general ledger system. Furthermore, the SSA general ledger did not accurately reflect the status of disposed property. SSA policies and procedures require that a disposition form be prepared by the Office of Materiel Resources and forwarded to the Division of Finance when property is no longer required or is determined to be excess so that the general ledger can be adjusted. We found that the disposition form was not forwarded when SSA disposed of ADP-related equipment.

Reports on Financial Position Not Always Supported by General Ledgers

Reports on Financial Position are one of the principal financial statements of a federal agency. However, the HHS operating divisions' Reports on Financial Position did not always flow from their accounting systems (their general ledger and supporting subsidiary accounting systems), as required by the Comptroller General's accounting principles and standards.

Besides the accounting system problems previously discussed, our review disclosed other instances in which the amounts shown on the operating divisions' Reports on Financial Position were not supported by the amounts recorded in their general ledger systems. Consequently, management using these reports might not have had accurate data on how federal funds were spent on various programs and administrative operations—an essential tool in accounting for and controlling the billions of dollars in resources entrusted to the Department.

Specifically, we found the following as of September 30, 1986:

- The Office of the Secretary's advance balance on its Report on Financial Position was \$11 billion greater than the amount in the general ledger

because the office had inappropriately included amounts the operating divisions recorded in their Reports on Financial Position.

- The Health Resources and Services Administration's "other asset" balance on its Report on Financial Position showed a total of about \$184 million, whereas the amount in the general ledger was zero. We found that \$135 million of this total was recorded in the general ledger as part of structures, land, equipment, inventories, and construction-in-progress. The remaining \$49 million was not supported by the general ledger.
- The Health Resources and Services Administration's accounts payable balance on its Report on Financial Position was about \$32 million greater than the amount in the accounts payable balance from the general ledger. Health Resources and Services Administration officials were unable to explain the difference.

The Department's operating divisions need to strive to prepare accurate and reliable financial statements which can be audited by an independent party. The process of preparing and auditing financial statements instills discipline in agency accounting and reporting systems because it establishes accountability.

Over time, audited financial statements can help improve the

- public reporting of and confidence in the results of the government's stewardship,
- management information for Department officials, and
- organizational discipline necessary to develop and maintain adequate systems of internal control and program accounting.

Audited financial statements can help ensure that there is a proper link among accounting transactions, accounting systems, financial statements, and financial reporting to Treasury, the Office of Management and Budget, the public, and the Congress. Further, the audit of financial statements provides an opportunity for an independent auditor—the agency inspector general, a public accounting firm, or GAO—to determine whether adequate safeguards are in place to protect resources entrusted to the agency and whether the agency accurately discloses the financial results of its operations.

Financial audits also reveal and focus attention on financial management problems affecting the agency's operations. Periodic disclosure of such weaknesses in reports and footnotes to financial statements could help focus attention on these problems and foster the organizational discipline needed to correct them.

In fiscal year 1988, the HHS Inspector General completed an audit of SSA's financial statements. The HHS Inspector General's staff indicated that they plan to audit the financial statements of some of the other HHS operating divisions in the future. We support the Inspector General's efforts at SSA and encourage him to perform such audits elsewhere in the Department.

Past System Enhancement Efforts Were Unsuccessful

While the reconciliation of accounting differences is an important component of improved financial management, HHS' primary challenge is to develop modern accounting and financial management systems. Over the past 10 years, HHS has attempted to correct its serious financial management problems through two departmentwide system enhancement initiatives—the Standard Accounting System and the Financial/Administrative Integrated Management System. The Department was unable to give us specific information on the cost of these unsuccessful initiatives, but these were multiyear efforts which would have involved millions of dollars for development and implementation. Since neither of these systems was successfully implemented, many of the Department's accounting system problems still existed at the time of our review.

Standard Accounting System

The Standard Accounting System effort, initiated in 1978, tried to develop a standard departmentwide financial management system. This system's effort was undertaken in response to the significant limitations and deficiencies which existed in the operating divisions' and Office of Secretary's accounting systems. These systems were (1) no longer responsive to management decision-making on a day-to-day basis, (2) limited in their ability to produce management information, (3) slow in recording transactions, (4) tied to outmoded computer technology, and (5) duplicative. Consequently, Department managers used their own personal computers and manual record-keeping systems rather than the official accounting records.

According to a Department official, the operating divisions resisted the full implementation of the Standard Accounting System because it would have been more cumbersome and costly to operate than the systems that were in place. We were told they had never been supportive of the effort. As a result, the project was terminated in April 1984, after years of effort and unknown cost, with HHS still facing the financial management difficulties discussed in our April 1984 report, Financial Management Profile: Department of Health and Human Services (GAO

AFMD-84-15). A modified version of the system was implemented for the Office of the Secretary in October 1983.

Financial/Administrative Integrated Management System

With the demise of the Standard Accounting System, HHS initiated another enhancement effort—the Financial/Administrative Integrated Management System—in April 1984. The aim of this project was to develop a single financial management system. Its approach consisted of purchasing computer software packages and a data base management system from a single software vendor, and then modifying the software to meet the Department's needs. The system, when implemented, was to address problems such as

- the Department's inability to obtain accurate and timely data and information for use in executing its management oversight responsibilities,
- obsolete and labor intensive accounting systems, and
- redundant and costly to maintain information systems.

While a contract was awarded through the GSA Procurement Schedule to purchase the computer software packages and a data base management system, the project was halted in early 1986 because of a contractor's bid protest to us. We found that HHS had made changes to the software that were not permissible. We were informed by HHS officials that, as a result of our decision, HHS began to reevaluate its approach to developing a single financial management system.

Discussions with HHS headquarters officials indicated that the operating divisions did not fully support the Financial/Administrative Integrated Management System effort because of their different organizational styles and degrees of centralization. Officials we interviewed in the operating divisions confirmed that they did not fully support the project because, in their view, it was too complex. They did not consider themselves a part of the decision-making process and said the project was forced on them. This was very similar to the Department's experience in trying to implement the Standard Accounting System. The Department decided not to proceed further with the new system because it felt the barriers were too great to implement the approach successfully within a reasonable time, and that the cost, schedule, and technical risks were unacceptable. In early 1987, the project was terminated, with another 3 years lost and the amount of cost incurred unknown.

When HHS initiated the Financial/Administrative Integrated Management System project, it placed a moratorium on all other financial management system enhancement projects except for SSA's System Modernization Plan (see page 41). The moratorium was put in place to avoid duplication of efforts in the Department's operating divisions and to control the system interfaces. During the moratorium, the Health Resources and Services Administration requested a waiver to correct long-standing problems in debt collection, and SSA requested a waiver to correct problems in property accountability. Each request was denied. HHS officials informed us that, as a result of the moratorium and their procurement difficulties, the Department's financial management systems are now, with few exceptions, 3 years older and even harder to maintain.

With the decision to terminate the Financial/Administrative Integrated Management System, the Department, for the second time in 10 years, halted efforts to correct many of its long-standing accounting system problems. In the succeeding months, the Department, in conjunction with its operating divisions, revised its approach to modernizing the Department's accounting operations and correcting its accounting system problems by developing the Phoenix Project Plan. This plan is discussed in greater detail in chapter 3.

HHS' Financial Integrity Act Report Needs to Adequately Disclose Status of Its Accounting Systems

While acknowledging a number of problems, the Department's fiscal year 1987 Federal Managers' Financial Integrity Act report to the President and the Congress did not adequately disclose all material accounting system weaknesses. Consequently, users of the Department's Financial Integrity Act report could conclude that the Department's accounting systems were operating essentially as intended and were providing reasonable assurance that the resources entrusted to the Department were adequately accounted for—a conclusion which we believe to be misleading.

The Comptroller General's accounting principles and standards specify that an agency's accounting system must provide control over assets and liabilities and accounting support for the financial management process. The accounting system must be able to develop and report costs and performances by major organizational segments, budget activities, and program structures. To fairly present the financial information needed by management, the reports, statements, and related disclosures produced by the system must be accurate, useful, complete, timely, and consistent.

On January 20, 1988, the Secretary reported that based on the Department's systems reviews and the assurances given by appropriate HHS officials, it had reasonable assurance that, except for SSA, the accounting systems were in conformance with the Comptroller General's accounting principles, standards, and related requirements. The Department reported no instances of material nonconformance with the Comptroller General's accounting requirements.

However, based on the results of our review and the problems previously discussed, we do not believe the Department's fiscal year 1987 Financial Integrity Act report accurately disclosed the status of its accounting systems. On the surface, the Secretary's report would make it appear that, with the exception of SSA, the Department's accounting systems were essentially trouble free. But as we previously discussed, the Department's accounting systems have had long-standing problems and did not provide management with accurate and reliable financial data. Also, as discussed earlier, the Department's efforts to correct its accounting system weaknesses have generally been unsuccessful. The Department has generally acknowledged that serious problems exist in its accounting systems, and as we discuss in chapter 3, HHS has developed a new financial management plan which it hopes will be the answer to its problems.

The Department's fiscal year 1987 Financial Integrity Act report made only minor reference to the accounting system weaknesses we identified. Using the results of our work, the Department reported that operational problems concerning the need to complete reconciliations of subsidiary records with control accounts were identified in its systems reviews. The Department, however, considered the problems to be nonmaterial instances of nonconformance with the Comptroller General's requirements—a judgment with which we disagree. As discussed earlier in this chapter, the problems affect billions of dollars; thus, the amounts are clearly material for purposes of the Financial Integrity Act. The Department's report also did not discuss the dollar amount of the discrepancies, the operating divisions affected by these problems, or the corrective actions needed.

Furthermore, in its Financial Integrity Act report to the Assistant Secretary for Health, which was used in preparing the Secretary's report, the Health Resources and Services Administration indicated that the weaknesses we identified were procedural and not accounting system weaknesses. While some of the weaknesses involved corrective actions which are procedural in nature (such as performing periodic reconciliations

between accounting systems and records), this does not mean they are not accounting system problems. As we pointed out earlier, the GAO Policy and Procedures Manual for Guidance of Federal Agencies, title 2, defines the agency's financial management system as both the manual and automated processes.

It is essential that the Department's Financial Integrity Act report adequately disclose all material accounting system weaknesses. Without adequate disclosure, the President and the Congress will not be aware of the Department's problems and the efforts needed to correct them. They also might place less importance on the need for resources to improve the Department's accounting systems, since the Department did not recognize some of its accounting system deficiencies as material.

Conclusions

Serious financial management system problems impact HHS' ability to accurately account for billions of dollars in government funds. The problems and their causes have been identified and are acknowledged to a great extent by HHS management—an important step in developing modern financial management systems for the Department.

While HHS has spent considerable time and effort in attempting to improve its financial management operation over the past 10 years, these efforts have fallen short of the mark. Past efforts to bring about improvements were abandoned because of a combination of technical difficulties, cost constraints, and the lack of support by the operating divisions. HHS' financial management difficulties must be overcome to help its managers ensure that the Department's programs are fairly administered and the resources entrusted to it are properly accounted for.

While the Department awaits the implementation of new accounting systems, it should, in the short-term, address some of its serious financial management problems. Periodic reconciliations would assist the operating divisions in accurately reporting on the financial results of their operations. In addition, the reporting of all material accounting system weaknesses in the Department's annual Financial Integrity Act report would better inform the President and the Congress of efforts needed and underway to improve financial management in the Department.

Recommendations

In order to help strengthen the Department's accounting and internal control systems, we recommend that the Secretary take the following actions:

- Direct the operating divisions to adhere to established accounting policies and procedures for performing periodic reconciliations between their accounting records and internal and external financial reports to determine the causes of differences and the correct amounts for fund balances, advances, receivables, and property.
- Develop written procedures for the collection of audit disallowances to ensure compliance with debt collection laws and regulations.
- Build upon SSA's efforts to have its financial statements prepared and audited by an independent party by expanding this effort to the other operating divisions.
- Identify all material accounting system weaknesses and the actions to be taken to correct the weaknesses in the Department's annual Financial Integrity Act report.

Agency Comments and Our Evaluation

HHS generally concurred with our recommendations, but took exception to the wording of our recommendation concerning the reporting of weaknesses under the Federal Managers' Financial Integrity Act. We revised the initial wording of the recommendation concerning weaknesses reported under the Financial Integrity Act based upon HHS' comments to the draft report. We wish to point out, however, that the accounting system problems discussed in the report involve billions of dollars—amounts which we believe are material and, therefore, should have been reported as such in the Department's fiscal year 1987 Financial Integrity Act report. Specifically, the report should have identified the dollar amounts, the operating divisions involved, and the corrective actions the operating divisions planned to take to resolve the problem. As discussed in the report, without adequate disclosure, the Congress and the President will not be aware of either the problem or the actions being taken to correct the problem.

Although the Department generally concurred with our recommendation to prepare and audit financial statements, it stated that careful consideration would have to be given to the cost/benefit of this recommendation before final decisions could be made.

The Department did not agree with our characterization of the operating divisions' accounting systems. It cited the systems at the Health Care Financing Administration and the Social Security Administration as

examples of the integrity of HHS systems. The Department then referred to our letter, dated August 26, 1987, which stated that the Health Care Financing Administration's accounting system had adequate internal controls to properly process and summarize financial information provided by other Department systems. The Department also referred to the HHS Inspector General's financial statement audit at the Social Security Administration, which concluded that, with some exceptions, SSA's combined statement of financial position presented fairly the financial position of SSA at September 30, 1987.

In regard to the Department's comment on our characterization of its financial operations, we believe that the information presented in the report accurately describes the Department's long-standing problems in financial management and its past inability to correct these problems. The results of our review were based upon an analysis of the financial information recorded in the operating divisions' accounting systems and shown on the Year-End Closing Statement and the Report of Financial Position submitted to the Department of the Treasury as of September 30, 1986, the most complete fiscal year for which information was available at the time of our review. During the course of our review, we provided the operating divisions with detailed schedules of the differences identified in the report, and for the most part they were unable to satisfactorily explain these differences. In addition, we followed up on selected problems previously identified by GAO, the HHS Inspector General, and HHS itself, pursuant to the Financial Integrity Act.

In addition, while we reported that the Health Care Financing Administration's accounting system had adequate internal controls to properly process and summarize financial information provided to it from other Department systems, we pointed out that this information was only as good as the data other systems and sources provided. We further noted that because this system was highly dependent on other sources for its input data, it was critical that the Health Care Financing Administration review these sources for compliance with the Comptroller General's accounting system requirements under the Financial Integrity Act.

Furthermore, as to the Department's comments on the recent financial statement audit at SSA, we wish to point out that, since fiscal year 1984, the Department has reported in Financial Integrity Act reports to the President and the Congress that SSA's accounting systems did not comply with the Comptroller General's accounting principles, standards, and related requirements. Furthermore, in commenting on this report, the

Department acknowledged that accounting system and internal control problems existed at SSA and that corrective actions were underway to resolve these problems.

Although HHS' Inspector General states that, with some exceptions, SSA's combined statement of financial position at September 30, 1987, was presented fairly, it should be pointed out that there are differing criteria for attesting to a set of numbers for financial statement purposes, as opposed to attesting that an agency's accounting systems are operating in accordance with the Comptroller General's accounting principles, standards, and requirements. Since fair presentation is a key objective of a financial statement audit, the auditor may elect to bypass weak internal controls in favor of substantive testing of account balances. Therefore, a favorable opinion on a set of financial statements may not be routinely interpreted as meaning that an agency's accounting and internal control systems are in compliance with the Comptroller General's accounting requirements.

In addition, under generally accepted government auditing standards, the auditor is required to report on the agency's system of internal accounting controls. In June 1988, the HHS Inspector General submitted to SSA a draft report for comment on the status of its internal controls. This report discussed material internal control weaknesses at SSA that were previously identified by SSA in its Financial Integrity Act reports and by the Inspector General as part of its financial statement audit of SSA.

Further, a favorable opinion on a set of financial statements does not relieve the agency from its responsibility for reviewing its accounting systems in accordance with OMB Circular A-127 to determine if they are in compliance with the Comptroller General's requirements as stipulated in the act. The financial statements, however, can and should be used as one element in evaluating the accounting systems.

Top Management's Continued Involvement Is Needed to Improve HHS' Financial Management

The Department's financial management problems are complex. As discussed in chapter 2, they adversely affect its ability to account for and control billions of dollars in resources entrusted to it. The Department, in conjunction with its operating divisions, has developed a financial management plan—the Phoenix Project Plan—which HHS hopes will resolve its serious and long-standing financial system problems. The operating divisions are supportive of this effort. While this is an important first step, some additional actions would further enhance the Phoenix Project Plan and increase the likelihood that HHS will be successful in its current system enhancement effort.

Top management's continued involvement and commitment is essential for the Phoenix Project Plan to succeed and the Department's financial environment to improve. Further, even though there is momentum now to address the Department's financial system problems, improvements will not come about overnight. If such efforts are to succeed, they must be sustained across administrations and guided by a cohesive framework under centralized leadership.

Importance of Financial Leadership and Planning

In an effort to bring about centralized financial leadership in federal agencies, on November 9, 1987, OMB directed each agency to designate a chief financial officer to provide leadership, direction, and monitoring of its financial management systems. This individual was to have primary responsibility within the agency for (1) finance and accounting policy, (2) financial reporting, (3) accounting and financial systems development and operations, (4) Financial Integrity Act oversight, and (5) cash and credit management. The chief financial officer also should be the agency's focal point for financial management, providing the leadership needed to solve long-standing problems and focusing on financial management issues that require prompt and appropriate attention.

Developing and implementing a long-range financial management plan is important to the success of any system enhancement effort. System development efforts are costly investments in and commitments of human and financial resources. The decisions made when these efforts are being planned and carried out will significantly affect the system's future efficiency, its effectiveness in providing the information needed to manage the agency's operations, and its useful life. Thus, careful and effective planning throughout the entire development process is imperative.

OMB Circular A-127 contains the requirements for overall financial management system development. The Circular and implementing guidance require agencies to annually review their financial management systems and submit to OMB a comprehensive 5 year plan showing planned developments (new system initiatives) and improvements, milestones and costs, and the relationship of the proposed improvements to other systems' development and operation activities. The Circular stipulates that agencies establish and maintain a single, integrated financial management system, which may be supplemented by subsidiary systems. The Circular also states that data needed in this system and other agency systems shall be entered only once and transferred automatically to appropriate accounts or other parts of the system or systems. This type of data entry would enable agencies to automatically update their account balances and enhance efforts to avoid duplication of efforts, thereby minimizing differences between systems. The resulting accounting system or modification must satisfy requirements of laws, regulations, and management; the accounting principles, standards, and requirements prescribed by the Comptroller General; and the requirements of Treasury and OMB.

Further, in an effort to bring about standardization in federal financial management systems, an interagency task force, under the direction of the Joint Financial Management Improvement Program, published Core Financial System Requirements in January 1988. This document sets forth uniform functional requirements that meet basic governmentwide and agency financial management needs for agencies' core financial management systems. In addition, the U.S. Standard General Ledger, issued by OMB in September 1986 and containing a uniform chart of accounts for federal government use, will be reissued as a supplement to the Treasury Financial Manual. The purpose of the general ledger and other requirements being developed is to standardize federal accounting and financial reporting.

Current Efforts to Improve Accounting Systems

To improve the efficiency and modernization of its accounting system operations and correct many of its long-standing accounting system weaknesses, the Department developed the Phoenix Project Plan in May 1987. The overall thrust of the plan is to ensure that the Department's future accounting systems include

- reliable and meaningful information for all management levels,
- elimination/reduction of redundant and labor intensive operations,
- standardization of financial processes,

Chapter 3
Top Management's Continued Involvement Is
Needed to Improve HHS'
Financial Management

- maximum exportation of all software developed or procured for use by other HHS financial operations, and
- an integrated flow of financial information between systems.

In addition, the Department issued design guidelines to be used in developing and implementing systems under the Phoenix Project Plan. The guidelines are intended to foster an understanding of both the technical and finance/accounting principles to be followed as well as system design criteria for evaluating implementation alternatives.

As shown in table 3.1, most of the Department's primary accounting systems are over 15 years old.

**Table 3.1: Age of the Department's
Primary Accounting Systems**

System	Age in Years
Center for Disease Control	16
Food and Drug Administration	16
Health Care Financing Administration	5
Health Resources and Services Administration	20
National Institutes of Health	20
Office of the Secretary/Office of Human Development Services	7
Social Security Administration	18

Under the Phoenix Project Plan, each HHS operating division is to develop a system enhancement plan which will improve the Department's core accounting and which will include the processing requirements for general ledger, fund control, accounts payable, and accounts receivable. In addition, the core accounting also includes maintaining subsidiary files and records necessary for reporting information both internally and externally.

Besides the core accounting, some of the operating divisions' enhancement efforts address problems in other areas. For example, the Health Resources and Services Administration's plan includes the development and implementation of a new debt management and collection system. Weaknesses in this area have been previously identified by GAO and the HHS Inspector General and recognized in the Department's Financial Integrity Act reports. SSA's plan includes a personal property inventory system to address deficiencies noted by GAO and the HHS Inspector General, and previously identified in the Department's annual Financial Integrity Act reports.

Department Will Provide Overall Direction and Oversight

In December 1987, in response to OMB's requirements, the Secretary of HHS designated the Assistant Secretary for Management and Budget as the Department's Chief Financial Officer and the Deputy Assistant Secretary for Finance as the alternate. Under the Phoenix Project Plan, these individuals are responsible for providing overall guidance and direction to the Department's operating divisions on all accounting and financial matters. The Deputy Assistant Secretary for Finance is responsible for updating the project plan as needed, coordinating the project activities, and reporting to OMB on the plan's status and the Department's implementation of OMB Circular A-127.

To assist in overseeing the Phoenix Project Plan, the Deputy Assistant Secretary for Finance has established a financial/ accounting/systems development group made up of the operating divisions' financial management officers and their systems staffs. One of this group's goals is to obtain a set of automated systems responsive to the operating divisions' program operations and management needs, as well as departmental management information requirements. The Deputy Assistant Secretary for Finance also is responsible for reviewing each operating division's enhancement plan prior to granting approval to proceed. We noted that the Deputy Assistant Secretary for Finance's staff identified several concerns with the operating divisions' plans. For example, in reviewing the National Institutes of Health's plan, the staff was concerned about how the agency would maintain its system since it would not be using off-the-shelf software (which generally includes maintenance).

HHS Operating Divisions Are Involved

In contrast to past system enhancement efforts, financial managers in the operating divisions view the Phoenix Project Plan initiative positively. They are involved in setting the priority and the specifics of corrective actions to be taken to resolve their own accounting system problems.

Under the Phoenix Project Plan, the Department's operating divisions are primarily responsible for developing and implementing their own system enhancement plans within an overall departmental framework. Officials indicated that this was a desirable approach because the divisions are familiar with the areas which need improvement. Specifically, each operating division is required to develop a detailed plan which includes a

- description of the effort to be undertaken,
- schedule of the principal milestones.

Chapter 3
Top Management's Continued Involvement Is
Needed to Improve HHS'
Financial Management

- statement as to the relative costs and benefits of the undertaking,
- statement of the principal risks involved, and
- statement regarding the Financial Integrity Act's impact on the plan—a description of how the plan will correct known material deficiencies.

In addition, each operating division is required to acquire or develop software which meets the Department's overall goals, such as conformance to the Department's accounting manual and implementation of the U.S. Standard General Ledger.

As of October 1987, all of the Department's operating divisions, except for the Food and Drug Administration and the Office of the Secretary, had requested and been granted permission to enhance their financial management systems. According to Department officials, the Office of the Secretary will not pursue enhancement efforts in the same manner as the other operating divisions. The Department has decided that the Office of the Secretary will use one of the other operating divisions' software packages and have it modified to meet the Office of the Secretary's specific system needs.

The Department's guidelines require that each operating division identify in its plans the cost to be incurred and anticipated milestones for implementing its system. As shown in table 3.2, all the operating divisions' plans made available to us as of October 1987 contained cost and milestone information, except for that of the Center for Disease Control. Each operating division is also responsible for having sufficient resources to design and implement its system enhancement effort.

Chapter 3
Top Management's Continued Involvement Is
Needed to Improve HHS'
Financial Management

**Table 3.2: Anticipated Costs and
Milestones for Implementing System
Enhancement Efforts**

Operating division	Estimated cost in millions	Implementation date
Center for Disease Control	\$.	December 1988
Health Care Financing Administration	9 ¹	July 1989
Health Resources and Services Administration	.6	
National Institutes of Health	3.6	October 1989
Social Security Administration	9.4 ²	April 1990

¹Cost estimates were not identified in the plan.

²Cost estimates do not include installation and communication costs.

³A definitive date had not been set, but officials estimated it would take approximately 15-18 months once the plan was approved.

⁴Includes \$5.9 million for acquisition and implementation of the software and \$3.5 million for maintenance over 8 years. In commenting on our report, HHS indicated that SSA recently awarded a \$12.3 million contract to replace its existing accounting system.

⁵This system will consist of four modules. The last module relating to supply management is scheduled for implementation by April 1, 1990.

In commenting on our report, the Department stated that the initial implementation of new core accounting system software for the SSA, the Center for Disease Control, the Health Care Financing Administration, and the Health Resources and Service Administration would be completed by December 1988. Initial implementation of all seven primary accounting systems is expected by fiscal year 1991.

**Additional Efforts
Needed to Enhance
Phoenix Plan**

While the Phoenix Project Plan is an important first step in addressing some of the Department's long-standing financial management problems, additional actions will be necessary to enhance the success of this effort. Specifically, we believe that the Department should

- closely monitor the current developmental projects to make sure that known system problems are corrected;
- integrate programmatic system¹ enhancement efforts with the Phoenix Project Plan; and
- establish a focal point for financial management in the operating divisions.

¹The programmatic system collects, processes, transmits, and disseminates information on the results of agency programs and/or functions.

Management Must Continually Monitor System Development Efforts

Our booklet, Critical Factors in Developing Automated Accounting and Financial Management Systems, dated January 1987, discusses 14 major factors that are critical to the successful development and implementation of a system. These include management commitment, basic features, target dates, independent testing, and quality assurance review. These five factors, which we considered most relevant to addressing the problems identified during the review, are discussed below.

1. Management commitment. If a project is to succeed, management must agree that the project is needed and accept its goals. In the case of the Phoenix Project, and in contrast to past major system design initiatives at HHS, this seems to have been accomplished. For accountability and timely completion, management needs to maintain continuity among the people assigned to manage and help with the project. Top management support also needs to be continued across successive administrations until the project is completed and the problems are corrected. Only with top-level support can a major system become an accepted, integral part of the organization. Top management should actively participate at key decision points throughout the system's development and implementation.

2. Basic features. It is essential that planned automated systems include features such as the following:

- a comprehensive set of automated internal controls to ensure the accuracy and reliability of information in files and reports;
- audit trails allowing transactions to be traced from reports to their originators;
- appropriate sets of automated subsidiary ledgers, such as accounts payable and accounts receivable ledgers;
- one-time recording of transactions;
- automated matching of related transactions (for example, matching disbursements with related payables); and
- adequate manual procedures, since not all transactions will be automatically entered and almost all will require some manual work.

3. Target dates. While we recognize that it is difficult to accurately estimate costs to be incurred and milestones for implementing each system project, realistic estimates should be made with the understanding that variances will occur as the project proceeds and there is greater understanding of the project's scope and complexity. When changes are made to these estimates, everyone from top management down must be notified. The reasons for slippages must be clearly identified, and variances

must be analyzed in order to maintain accountability and control over the project.

4 Independent testing. Acceptance testing is needed to make certain that the system is operating as designed. Consequently, acceptance testing should be performed by a group independent of the developer. For complex systems, acceptance testing is a very formal process. A test plan identifies the documentation, equipment, and software needed for the tests. It also describes test methodology, test controls, and tests to be performed. Problems are noted in a formal test analysis report, and retesting continues until all problems have been satisfactorily resolved.

5. Quality assurance review. The system under development should be independently reviewed by someone who has technical knowledge but is not close to the project in order to identify problem areas, omissions, or better ways of accomplishing the system's tasks. The independent reviewer should use a checklist to consider and document all relevant points. The reviewer should be equal to or higher in rank than the project manager and must be able to exercise independent judgment, similar to that of an inspector general. The reviewer also should try to make constructive recommendations for resolving any problem he or she finds.

Successful implementation of the factors discussed in our booklet would contribute significantly to correcting some of the problems that we identified in chapter 2. For example, the one-time recording of a transaction should greatly reduce differences between the general ledger system and the subsidiary system. Also, the one-time recording of a transaction should greatly enhance the operating division's ability to perform the required reconciliations and more accurately report on its financial position.

Need to Integrate Programmatic System Enhancement Efforts With Phoenix

The Phoenix Project Plan focuses primarily on HHS' efforts to enhance its accounting systems. Our review of available documentation shows that the plan does not clearly delineate how or if the accounting system enhancement efforts will be integrated with the Department's efforts to improve its programmatic systems. The integration of the Department's enhancement efforts should make it unnecessary to enter data more than once and help reduce the probability of errors. In addition, the integration of the system will help avoid unnecessary developmental cost and ensure the compatibility of systems—both hardware and software.

Chapter 3
Top Management's Continued Involvement Is
Needed to Improve HHS'
Financial Management

For example, since 1982, SSA has been trying to implement its Systems Modernization Plan, an effort aimed at correcting difficult to maintain, obsolete computer systems that were creating serious service problems. The plan's objectives were to improve software, equipment, and data communications, and to implement an integrated data base in order to provide better service to the public. Improvements were to take place over a 5-year period (1982-1986) at an estimated cost of \$479 million. SSA currently projects the costs through fiscal year 1988 to be about \$643 million, which includes improvements in other areas. Successful implementation of the Systems Modernization Plan would also improve SSA's ability to account for and control payments made to program beneficiaries. It is, therefore, vitally important that SSA's system enhancement efforts under the Systems Modernization Plan and Phoenix Project Plan are integrated to ensure the efficient and effective exchange of data between the program and accounting systems.

In addition, it is equally important that enhancement efforts to improve the programmatic systems in other HHS operating divisions be integrated with the systems efforts under the Phoenix Project Plan. For example, efforts to improve programmatic systems in the areas of procurement, contracts, grants management, and disbursements need to be integrated with efforts to enhance the accounting systems. It is critical that accounting systems not simply satisfy financial reporting requirements but also be an important tool for the manager in administering the Department's billion dollar programs.

Focal Point for Financial
Management in the
Operating Divisions Would
Enhance Development
Efforts

A key element in improving HHS' financial management systems is leadership. As we testified before the Senate Governmental Affairs Committee,² agencies must have consistent, continuous, and strong financial management leadership to solve the serious and long-standing accountability problems they face. This would provide the continuity needed for improved agency financial management, support for central agency financial initiatives, and a conduit for accounting policy and guidance.

As we discussed earlier, the Assistant Secretary for Management and Budget has been designated as the Department's Chief Financial Officer with responsibility for providing overall guidance and direction. Also,

²Testimony by the Comptroller General on (1) "The Federal Management Reorganization and Cost Control Act of 1986" (May 13, 1986), (2) "Improving Government Management and Accountability" (GAO T-AFMD-87-1, February 18, 1987), and (3) "The Federal Financial Management Reform Act of 1987" (GAO T-AFMD-87-18, July 23, 1987).

acting upon a recommendation in our report, Social Security Administration: Stable Leadership and Better Management Needed to Improve Effectiveness (GAO/HRD-87-39, March 18, 1987), a Chief Financial Officer has been appointed in SSA. Furthermore, in October 1987, the Deputy Assistant Secretary for Finance informed us that the Department plans to establish a chief financial officer position in each of the other operating divisions.

We support the Department in these efforts. We believe that given the size and diversity of HHS' operations, the appointment of a chief financial officer in each operating division would provide the continuing leadership needed to help resolve many of the financial management problems discussed in this report. Also, it would increase the likelihood that future financial management issues would receive prompt and sufficient attention. As a focal point for financial management, the chief financial officer would (1) account for the utilization of resources, including the cost associated with performance of activities, (2) monitor progress and costs relative to major procurement initiatives to ensure early and timely identification of problems, and (3) assess the effectiveness and integrity of the operating division's program and accounting systems to ensure that the information is accurate, that internal controls are working, and that these systems comply with the Comptroller General's accounting principles and standards.

Conclusions

The Department has developed a plan aimed at correcting its accounting system weaknesses through long-term system enhancement efforts. The plan, which has the support of managers in the HHS operating divisions, is an important first step. If successfully implemented, the Phoenix Project Plan can help HHS bring about improvements in its accounting-system operations and provide a framework for the operating divisions to follow.

It is imperative that the Phoenix Project Plan be well managed throughout its implementation. This plan must be given top management priority and sustained effort by the operating divisions in order to succeed. The continued involvement of the operating divisions is vital to building consensus for the plan and is the primary means of ensuring that all viewpoints are considered.

In addition, it is vitally important that enhancement efforts related to the programmatic systems be integrated with the efforts under the Phoenix Project Plan to avoid unnecessary development cost and to

ensure systems compatibility. The establishment of a chief financial officer position in each HHS operating division, coupled with strong management involvement and commitment at the Assistant Secretary for Management and Budget level, should help ensure the successful implementation of the plan.

Recommendations

We recommend that the Secretary closely monitor the accounting system enhancement efforts under the Phoenix Project Plan to ensure that known accounting system problems are corrected and improvements to the Department's financial management environment are occurring. This can be accomplished through periodic briefings and progress reports from the Assistant Secretary for Management and Budget, the Department's Chief Financial Officer, on the operating divisions' system enhancement efforts, including information on slippages in costs and milestones.

We further recommend that the Secretary direct the Assistant Secretary for Management and Budget to ensure that the system enhancement efforts under the Phoenix Project Plan are integrated with the programmatic system enhancement efforts to avoid unnecessary developmental cost and to provide for systems compatibility.

Agency Comments and Our Evaluation

HHS indicated in its comments that our report did not adequately describe the actions the Department had underway to improve its accounting and internal control systems. In addition, the Department did not agree with the initial wording of our recommendations to the Secretary.

We believe that our report accurately and fairly describes the Department's efforts to improve its accounting and internal control systems. Several of the points raised by the Department are discussed in the report. Specifically, the Department's current efforts to improve its accounting systems through the Phoenix Project Plan and the issuance of the Phoenix Project Design Guidelines are discussed on pages 34 to 37 of the report. In addition, the role of the Deputy Assistant Secretary for Finance and the formation of a financial/accounting/system development group to assist in overseeing the implementation of the Phoenix Project Plan are discussed on page 36 of the report. Further, the report clearly discusses the oversight role that the Department is taking and the expectations it has set forth for each of the operating components.

We believe that the recommendation to the Secretary to closely monitor the Department's system enhancement efforts under the Phoenix Project Plan is valid. Top management should actively participate at key decision points throughout the system's development and implementation. Only with top-level support can a major system become an accepted, integral part of the organization.

We also believe that the recommendation to integrate the Department's programmatic system enhancement efforts with those under the Phoenix Project Plan is still valid. We are not suggesting, as implied in HHS' comments, that the Department tie together its accounting systems and its programmatic systems into a single integrated system. Instead, we believe the Department needs to ensure that data transferred between systems is done in the most efficient and cost effective manner. While HHS states that its systems efforts are already being coordinated to avoid unnecessary developmental cost and to ensure systems compatibility, this is not delineated in the Phoenix Project Plan and its implementing design guidelines. For example, the Phoenix Project Plan does not contain specific information on how the programmatic and accounting systems will be integrated throughout the Department as required by OMB Circular A-127.

In addition, as discussed in the report, successful implementation of the System Modernization Plan at SSA would improve SSA's ability to account for and control payments made to program beneficiaries. System enhancement efforts at SSA under the System Modernization Plan and the Phoenix Project Plan should be coordinated to avoid unnecessary developmental cost and to ensure systems compatibility. Some of the programmatic information must be entered in the accounting system in order for SSA to accurately report on the status of its programmatic and administrative operations.

Financial Management Structure of the Department of Health and Human Services

Primary Accounting Systems

- Office of the Secretary/Office of Human Development Services Accounting System maintains the Office of the Secretary's general ledger accounts, records the financial results of program and administrative operations, produces internal and external financial reports, and controls the Office of the Secretary's spending authority. This system also maintains the general ledger accounts and controls the spending authority for the Office of Human Development Services.
- Center for Disease Control Accounting System maintains the agency's general ledger accounts, records the financial results of program and administrative operations, produces internal and external reports, and administratively controls the spending authority for the Center for Disease Control.
- Food and Drug Administration Accounting System maintains the agency's general ledger accounts, records the financial results of program and administrative operations, produces internal and external financial reports, and controls the agency's spending authority.
- Health Care Financing Administration Accounting, Reporting, and Tracking System is the agency's general ledger and financial reporting system. It accounts for and controls the Health Care Financing Administration's spending authority, produces required internal and external reports on the financial results of program and administrative operations; and authorizes, computes, makes, accounts for, and controls payments related to the agency's administrative expenses.
- Health Resources and Services Administration Accounting System is the agency's primary financial management (general ledger) system. All other Health Resources and Services Administration financial systems, such as inventory, receivables, and property provide information to this system. This system also maintains the general ledger accounts and controls the spending authority for the Alcohol, Drug Abuse, and Mental Health Administration; the Office of the Assistant Secretary for Health; and the Family Support Administration.
- National Institutes of Health Central Accounting System captures all financial transactions, maintains a general ledger and other related files, produces a series of external and internal reports related to the results of the agency's financial operations, and controls its budget authority.
- Social Security Administration Integrated Financial Accounting System is SSA's general ledger and financial reporting system. It accounts for and controls SSA's spending authority; produces internal/external reports on the financial results of program and administrative operations; and authorizes, computes, makes, accounts for, and controls payments related to SSA's administrative expenses.

Subsidiary Financial Systems

- Central Payroll (Civilian/Military) System computes, disburses, accounts for, and controls all salary payments made to the Department's employees. It provides summary cost information to the Department's seven general ledger/administrative control of funds systems and produces required personnel and payroll reports. It also processes all pay entitlement and payroll transaction information relating to commissioned officers (for example, tax withholding exemptions). It maintains the central, automated master payroll file for commissioned officers and computes monthly paycheck amounts.
- Payment Management System accounts for, controls, and makes most cash advances to states, local governments, schools, and nonprofit medical research activities under terms of grants, contracts, loans, and other financial agreements. The system also maintains the departmentwide file of all organizations and individuals who are authorized to receive payment from the Department under a contract, grant, loan, or other financial agreement.
- Regional Accounting System is a centralized accounting system supporting financial management in the Department's regional offices. In addition, it provides summary financial data to the operating divisions each month.

Program Financial Systems

- Health Resources and Services Administration Indian Health Service Contract Health Service Management Information System is an automated system that processes payments to and collects statistical data on medical services provided by contractors to patients in Indian Health Service facilities.
- Social Security Administration Debt Management System records, adjusts, and tracks overpayments made to social security recipients. It also maintains payment information on the status of each Supplemental Security Income program overpayment and identifies the state's share of the overpayment.
- Social Security Administration Program Benefits System establishes benefit payments for social security recipients, supplemental security income recipients, and Black Lung program claimants.

HHS Operating Divisions' Accountability and Control Over Resources

The HHS operating divisions do not effectively account for and control the resources entrusted to the Department. Serious accounting system problems adversely affect the operating divisions' ability to (1) account for and control billions of dollars in appropriation fund balances, (2) adequately account for advances to grant recipients, (3) properly account for and collect millions of dollars in debts arising from audit disallowances and SSA benefit overpayments, and (4) accurately account for hundreds of millions of dollars in property. One major difficulty involves a failure to comply with established accounting policies and procedures. Furthermore, two unsuccessful attempts to implement departmentwide accounting system enhancement initiatives have prolonged the problems. The accounting system problems and their causes have been identified in prior GAO and HHS Inspector General audits and evaluations (referenced in the report) and are generally acknowledged by HHS officials.

This appendix further discusses the accounting system problems which are highlighted in chapter 2 of this report.

Accounting System Requirements

The Accounting and Auditing Act of 1950 places responsibility for establishing and maintaining adequate systems of accounting and internal control with the head of each executive agency. These systems are required to meet the accounting principles, standards, and related requirements prescribed by the Comptroller General.

Accounting systems standards are published in the GAO Policy and Procedures Manual for Guidance of Federal Agencies. (See footnote 3 on page 10.) These standards require that agency accounting systems be an integral part of the agency's total financial management system and provide sufficient discipline, effective internal controls, and reliable, useful information.

As described in the standards, an accounting system is that part of the overall financial management system which provides the total structure of methods and procedures used to record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, or organizational components. It includes the manual and automated procedures and processes from the point a transaction is authorized (initiated) to the issuance of financial statements and management information reports containing the data in detail or in summary form.

In addition, the Comptroller General's accounting principles and standards specify that agency financial statements, such as the Report on Financial Position (TFS Form 220), shall result from an accounting and budgeting system that is an integral part of its total financial management system and one that contains sufficient discipline, effective internal controls, and reliable data.

An accounting system which complies with these standards would have a number of interrelated subsidiary systems. These include a general ledger system and a number of other financial systems that account for and control specific assets and liabilities and authorize the use of, account for, and control the agency's appropriated funds and other resources. Taken as a whole, the accounting system authorizes, records, classifies, and reports financial data related to revenues, expenses, assets, liabilities, and government equity.

The general ledger system should maintain summary information on the agency's assets, liabilities, equity, expenses, losses, and gains and produce summary financial reports which provide the necessary information for preparing financial statements. The general ledger system should draw information from the financial systems that authorize, record, process, and report individual financial transactions. Consequently, the information presented in an agency's general ledger and other subsidiary financial systems should be traceable to its financial statements.

Appropriation Fund Balances Need to Be Effectively Accounted for

The Department's operating divisions did not effectively account for and control billions of dollars in appropriation fund balances. We found that they did not reconcile unexpended fund balance differences of over \$3 billion between their accounting systems and financial reports sent to Treasury. (See page 20 for an explanation of the term "unexpended funds".) The operating divisions do not know why these large differences exist. Consequently, they do not know the correct amount of funds they have available in various accounts. Likewise, the operating divisions did not reconcile large differences between the unobligated fund balances reported in their systems and the financial reports submitted to Treasury and, therefore, they are not providing adequate fund control.

Reconciliation of Fund Balance Differences Is Important

The GAO Policy and Procedures Manual for Guidance of Federal Agencies states that each agency, in order to properly administer an appropriation, should maintain accurate records which show, among other things, each appropriation's unexpended fund balance.

Appropriations are available for obligation during the fiscal year or years specified by the Congress in an agency's appropriation act. When an appropriation is no longer available, the agency may not legally obligate any more of those funds. In fact, at that time, unobligated amounts are to be withdrawn from the appropriation and returned to Treasury. Treasury maintains a record of these amounts in an account called the Surplus Fund. Withdrawn balances are identified by appropriation and fiscal year and can be restored to the agency to pay amounts properly chargeable to the appropriation.

At the end of the fiscal year, Treasury sends each agency a report—the Year-End Closing Statement—showing the status of its appropriation accounts. On this report, Treasury enters the unexpended fund balance that is shown on its records for each appropriation. This information is derived from data the agency has furnished to Treasury in monthly reports.

Treasury requires that each agency determine whether unexpended fund balances shown in the agency's records agree with Treasury's balances. When there are differences, the agency must reconcile its accounting records to determine the reasons for the differences so that its accounting records and/or Treasury's records can be adjusted to show the correct balance. The report is also used to inform Treasury of (1) the amount of unobligated funds that are to be withdrawn from appropriations and (2) the amount of funds to be restored to appropriations from the surplus fund.

Failure to reconcile and identify the causes of differences promotes the making of unsupported adjustments in order to force agency and Treasury records to balance. This results in inadequate accountability for and control over appropriated funds and a distortion of financial data on obligations, receivables, restorations, and withdrawals reported to Treasury.

General Ledger
Unexpended Fund Balance
Differences Not Reconciled

Although significant differences exist in the unexpended fund balances (see page 18 for explanation) recorded in the HHS operating divisions' general ledger systems and the amounts shown on the Year-End Closing Statements, the differences were not reconciled to determine the correct appropriation fund balance. For example, as of September 30, 1986, the last fiscal year for which data was available at the time of our review, we found that:

- The Health Resources and Services Administration's general ledger unexpended fund balance was \$3.1 billion more than the amount shown by Treasury. The general ledger balance was \$4.5 billion, whereas the Year-End Closing Statement showed a balance of \$1.4 billion. Health Resources and Services Administration officials informed us that one of the probable causes for the difference is that the headquarters accounting staff was not recording all regional office closing entries in the general ledger. However, the differences have not been reconciled. This problem has existed since the current accounting system was implemented approximately 10 years ago.
- The Office of the Secretary/Human Development Services' general ledger unexpended fund balance was about \$269 million less than that reported by Treasury. Of this amount, about \$193 million related to the Office of the Secretary's Departmental Management funds, while \$76 million related to Human Development Services funds. Office of the Secretary officials were unable to explain the reasons for the differences because they had not performed the required reconciliations. In commenting on our report, the Department stated that, until the Phoenix Project systems are fully implemented, the Office of the Secretary has designed and is now phasing into operation an automated process to facilitate the needed reconciliations.
- The Food and Drug Administration's general ledger unexpended fund balance was approximately \$39 million more than what Treasury reported as available. The difference was primarily because (1) Treasury warrants (official documents which stipulate the amount of money an agency is authorized to withdraw and spend) were not recorded in the accounting system, (2) fund balance accounts at fiscal year-end were not properly closed and reconciled, and (3) appropriate adjustments were not recorded in the accounting system.

Although federal agencies are required to reconcile their unexpended fund balances with the amounts reported by Treasury to determine the correct amounts, HHS' operating divisions did not adhere to this requirement. Instead, they reported back to Treasury the unexpended fund balances shown on the Year-End Closing Statements. Therefore, to

compensate for unexpended fund balance differences and to make the Report on Financial Position and the Year-End Closing Statement balance, the operating divisions made unsupported adjustments to accounts receivable, accounts payable, and advance amounts on these reports.

For example, the Office of the Secretary made unsupported adjustments of about \$7 million to accounts receivable and approximately \$197 million to accounts payable on its Report on Financial Position and Year-End Closing Statement for the Departmental Management funds. The Health Resources and Services Administration, on the other hand, arbitrarily increased advances by \$600 million in one appropriation and increased accounts payable by \$200 million and \$400 million, respectively, in two other appropriations on the Report on Financial Position and the Year-End Closing Statement in order for the reports to balance.

We asked officials in the Department's operating divisions why they did not reconcile unexpended fund balance differences to determine the correct amounts and the reason for the differences so that action could be taken to correct problems with the accounting systems. Office of the Secretary officials told us they were aware of some of their unexpended fund balance differences and recorded these in a separate account for future analysis and reconciliation. However, according to the Acting Director, Division of Accounting, the reconciliations were not performed because they did not have sufficient staff. This official also indicated that the emphasis was on getting the current work done rather than on reconciling past differences. The Director of Fiscal Services at the Health Resources and Services Administration advised us that its fund balances have not been reconciled for several years because it lacks a monitoring system to ensure that this function is performed.

At the completion of our review, officials at the Food and Drug Administration and Health Resources and Services Administration advised us that they plan to perform the required reconciliations in the future. A Health Resources and Services Administration official also informed us of plans to make such reconciliations a part of the staff's performance evaluation process.

Unobligated Fund Balance Differences

Our review also disclosed significant differences between the unobligated fund balances recorded in the Department's accounting systems and the amounts reported to Treasury on the Year-End Closing Statements. For example, as of September 30, 1986:

Appendix II
HHS Operating Divisions' Accountability and
Control Over Resources

- The Health Resources and Services Administration general ledger showed a net total of about \$1.7 billion in unobligated funds for 10 appropriations, whereas it reported a net total of about \$16 million in unobligated fund amounts on the Year-End Closing Statement. The difference of about \$1.7 billion in unobligated funds is part of the \$3.1 billion difference in unexpended funds noted on pages 18 and 51 of this report.
- The Office of the Secretary general ledger showed an unobligated fund balance of about \$111 million for the Human Development Services appropriations, whereas only about \$18 million was reported as unobligated on the Year-End Closing Statement. Similarly, the general ledger unobligated fund balance for the Departmental Management appropriations was over \$31 million, whereas the amount reported to Treasury was about \$5 million. These differences in unobligated funds are part of the unexpended fund balance differences for the Office of the Secretary/Human Development Services noted on page 51 of this report.
- The Health Care Financing Administration general ledger showed a negative unobligated fund balance of about \$60 million, whereas it reported about \$2 million on the Year-End Closing Statement submitted to Treasury.

Officials in the operating divisions informed us that the amounts reported as unobligated fund balances were not based on the general ledger balances but on amounts shown on the Report on Budget Execution. They provided no explanation for doing this. At the end of the fiscal year, each operating division submits a Report on Budget Execution to the Office of Management and Budget for all its appropriations. This report presents the budgetary resources (budgetary authority, reimbursements, and other income) and the status of budgetary resources (obligations incurred and unobligated fund balances) for each appropriation. The amount of obligations incurred is obtained from the operating division's subsidiary ledger which keeps track of the obligations for each appropriation. The unobligated fund balance is derived by subtracting the obligations incurred from the total budgetary resources. In essence, the unobligated fund balance in the Report on Budget Execution should equal the balance in the general ledger, but we found that in several instances the amount was significantly different.

Officials in the operating divisions could not explain these differences because they had not performed the reconciliations between the general ledger unobligated fund balance and the balance derived from the Reports on Budget Execution. Consequently, the Department does not

know the correct amount of unobligated funds available and does not have adequate fund control or accountability.

Advances to Grant Recipients Are Not Adequately Accounted for

The Department also lacks adequate accountability over cash advances to grant recipients. Our analysis of available data disclosed that the advance balances in the operating divisions' general ledger systems and the advance balances in the Payment Management System—HHS' grant payment system—are different. The information in these systems should agree. Table II.1 shows the advance balances in the general ledger systems and in the Payment Management System for three Health Resources and Services Administration appropriations and three Office of the Secretary/Human Development Services appropriations. The table also indicates the amount of the differences.

Table II.1: Advance Balance Differences Between Operating Division's General Ledger and HHS' Payment Management System

Dollars in millions

Operating division and appropriation	General ledger balance	Payment Management System balance	Difference
Health Resources and Services Administration			
General funds prior to fiscal year 1984	\$ 6	\$68	\$62
General funds fiscal year 1984	26	23	3
General funds fiscal year 1985	116	147	31
Office of the Secretary/Human Development Services			
Human Development Services			
General funds fiscal year 1986	(2) ¹	34	36
Family Social Services fiscal year 1985	22	23	1
Policy Research fiscal year 1986	3	2	1

¹A negative advance balance was shown in the general ledger.

Office of the Secretary and Health Resources and Services Administration officials could not explain the above differences because again periodic reconciliations between the two systems were not performed. The Health Resources and Services Administration did research the difference for one appropriation—General funds-fiscal year 1985—and noted a \$31 million adjustment to the general ledger. Health Resources and Services Administration officials, however, were not able to explain why the adjustment had been made and did not provide any supporting documentation. If the adjustment had not been made, the two sets of accounting records would agree.

We identified four factors which we believe affect HHS' inability to accurately account for advances made to grants recipients. Each of these factors is discussed below.

1. Unsupported Adjustments to Advance Balances. Accounting for advances made to grant recipients is complicated by the unsupported adjustments made to the advance balance on the Reports on Financial Position and on Treasury's Year-End Closing Statements. As discussed earlier, these adjustments were made to compensate for fund balance differences and to "force" the amounts in these reports to balance. For example, we noted that the Health Resources and Service Administration made an unsupported adjustment of \$600 million on its Report on Financial Position and on the Year-End Closing Statement to increase advances to compensate for a \$600 million misstatement in its fund balance.

As we indicated earlier, periodic reconciliations between the operating divisions' general ledger systems and both the Payment Management System and the amounts shown on the Year-End Closing Statements are essential in identifying the reasons for advance balance differences. Such reconciliations are also necessary in determining the correct balances.

2. Poor Condition of Subsidiary Records. Our review of selected Office of the Secretary subsidiary records disclosed that these records contain inaccurate information on the grantee's name, identification number, and account balance. An Office of the Secretary official attributed part of the problem to the conversion of the old accounting system to a new accounting system in fiscal year 1984. The old accounting system did not contain accurate information on some of the grant recipients' names or identification numbers. When this information was converted to the new system, it was not corrected. The adage "garbage in, garbage out" applies. A typical error, for example, is that the recipient's name on several of the grants is the U.S. Department of Health and Human Services.

3. Expenditure Data Entered Incorrectly. Many of the grants showed a negative advance balance because expenditure information was incorrectly entered into the system. Specifically, when funds are advanced to a grant recipient, the amounts are listed in the subsidiary ledger as advances outstanding. As expenditures are reported by the grant recipient, they are entered into the accounting system and are applied against the advances. However, a negative advance balance can arise when the

expenditure data is incorrectly entered into the accounting system and then applied against an advance which is of lesser value.

4. Untimely Grant Closeout. As discussed in our December 1987 report, Accounting Systems: HHS Grant Payment Operation Has Improved and Additional Corrective Actions Are Underway (GAO/AFMD-88-18, December 30, 1987), timely grant closeout—a critical first step in identifying and collecting potentially millions of dollars owed by grant recipients at the completion of their grants—continues to be a problem. A Department analysis in June 1986 identified 4,527 grant awards whose performance period had expired in December 1983 or earlier that still had not been closed. The majority of these grants (4,104) related to the Office of the Secretary (which includes the Department's regional offices) and three organizational components within the Public Health Service (the Alcohol, Drug Abuse, and Mental Health Administration; the Health Resources and Services Administration; and the Office of the Assistant Secretary for Health). In addition, as discussed in our December 1987 report, at our request, the Department identified 2,037 open grants for which the performance period expired between January 1, 1984, and December 31, 1986. These inactive grants related only to the Alcohol, Drug Abuse, and Mental Health Administration; the Food and Drug Administration; the Health Resources and Services Administration; and the Department's regional offices. Thus, the magnitude of the problem is, in all likelihood, even greater. Acting upon the recommendations in our report, each month the operating divisions are provided a list of inactive grants in order to initiate closeout actions. Also, the Department is developing grant closeout procedures for situations where no final reporting of expenses by the grantee is available.

Serious Debt Management Problems Remain

The Department continues to experience serious problems in accounting for millions of dollars owed the government from audit disallowances and SSA benefit overpayments. Prompt collection actions are important because the longer debts remain outstanding, the more difficult they become to collect.

Audit Disallowances May Be Uncollectible

The Office of the Secretary is not aggressively pursuing the collection of about \$31 million in audit disallowances. Our review disclosed that its collection efforts were hampered by (1) inadequate documentation of the audit disallowance, (2) delays in recording the accounts receivable, and (3) lack of written procedures for collecting audit disallowances. As

a result, millions of dollars owed the government may no longer be collectible.

September 30, 1986, information—the most recent available at the time of our review—showed that the Office of the Secretary accounting system contained 82 audit disallowance accounts. These audit disallowances totaled about \$31 million and accounted for about 51 percent of the Office of the Secretary's total receivables. The Office of the Secretary was only able to locate the case files for 73 audit disallowances valued at \$26 million. The nine missing case files had a value of \$5 million.

We reviewed the 73 case files and found that they did not contain sufficient information on the history of the audit disallowance. The case files often did not contain the written determination for the audit disallowance, the repayment agreement, any court decision sustaining or reducing the audit disallowance, or copies of the demand letters requesting repayment. Evidence of collection action consisted primarily of annotations in the files.

To determine whether the Office of the Secretary was promptly recording receivables resulting from audit disallowances, we compared the time intervals between the dates the audit disallowances were determined and the dates they were recorded as receivables in the accounting system for 59 cases where such information was available. It took HHS from 1 to 62 months to establish these receivables, with 43 of the cases taking over 3 months. Examples follow.

- An audit disallowance of \$768,465 was identified in September 1982 but was not established in the accounting system until October 1983—12 months later. This amount was reduced to \$631,369 in 1984; however, as of August 1987, no documentation had been received to make the appropriate change in the accounting system.
- An audit disallowance of over \$57,000 was identified in October 1981, but it took until April 1985, or 3-1/2 years for the amount to be recorded in the accounting system.

Our review also indicated that collection action on these receivables consisted primarily of issuing three payment demand letters to the debtor. Collection efforts generally ceased after the letters were issued. Part of the difficulty in collecting these amounts stems from the lack of written debt collection procedures describing the actions to be followed in attempting to collect these outstanding debts. Office of the Secretary

officials stated that an attempt to write the procedures had been made in 1984, but the person assigned this responsibility was reassigned to another job.

We also discussed this matter with an Associate General Counsel in HHS' Office of the General Counsel. We were informed by this individual that the General Counsel was not aware that the collection of audit disallowances was not being pursued. This individual also informed us that his office is occasionally involved in working out the repayment agreement between the Department and the debtor. The Office of the Secretary should consider contacting the Office of the General Counsel when problems arise in collecting audit disallowances.

The Comptroller General's internal control standards include an audit resolution standard which requires managers to take prompt, responsive action on all findings and recommendations made by auditors. In this regard, OMB Circular A-50 requires agencies to establish systems for following up on audit findings and related recommendations that are reported by GAO, internal auditors, and agency managers. Each agency head is required to designate a top management official to oversee follow-up actions and ensure that corrective actions are implemented promptly.

For fiscal year 1986, OMB directed agencies to evaluate their audit resolution efforts and include in their Financial Integrity Act reports specific information regarding their systems for tracking audit recommendations and their success in promptly correcting reported problems. HHS reported that it resolved virtually all of its audit reports promptly. However, in light of the problems we identified, the Department needs to emphasize again the importance of the audit resolution process and ensure that effective procedures are put in place that will enable the prompt collection of amounts owed the government.

SSA's Subsidiary Accounts Receivable Systems Are Unreliable

The HHS Inspector General has identified serious systems weaknesses in SSA's subsidiary systems which directly affect the accuracy of SSA's general ledger accounts receivable information. SSA's accounts receivable are primarily generated from overpayments to recipients in the Old-Age and Survivors Insurance, Disability Insurance, and the Supplemental Security Income programs. The receivables for these three programs total over \$2.3 billion, which represents approximately 97 percent of SSA's total accounts receivable reported to Treasury as of September 30, 1986. Specific examples follow:

- In May 1987, the Inspector General reported a net difference of \$150 million, as of December 31, 1985, between the collections recorded in the Recovery of Overpayment, Accounting, and Reporting System and those reported by the SSA program service centers. The Inspector General concluded that this difference could be attributed to a programming error in the system's software.
- In February 1987, the Inspector General reported that during the period January 1978 through December 1984, SSA did not collect approximately \$54 million in accounts receivable due to employees' errors and failure to record overpayment data in its Recovery of Overpayment, Accounting, and Reporting System.
- In April 1986, the Inspector General reported that SSA's accounts receivable had been understated by approximately \$1.5 million annually due to (1) weak procedural controls over the Old-Age and Survivors Insurance program and Disability Insurance program overpayments and (2) a deficiency in the Supplemental Security Income payment processing system which allowed the cashing of duplicate benefit checks to go undetected. SSA's planned corrective action is contingent upon implementation of the National Debt Management System (NDMS).

We followed up on the status of the above accounting system weaknesses and found that the problems had not been corrected as of October 1987. Consequently, financial data recorded in SSA's subsidiary systems and passed on to SSA's general ledger system continue to be inaccurate and unreliable.

SSA's inability to effectively implement the NDMS has compounded problems in improving the accuracy of its accounts receivable subsidiary records. SSA has made limited progress over the past 6 years in its attempt to develop a single, cohesive system to control and account for all debts owed SSA by the public. Currently, each of SSA's benefit payment systems employs different debt collection systems and procedures. These systems have many manual processes and do not perform many of the accounting functions necessary to adequately protect federal funds.

In March 1981, SSA began a project to develop NDMS which was intended to correct many of SSA's long-standing debt collection problems that had been previously identified in GAO reports and HHS Inspector General reports. The NDMS project director informed us that SSA had spent approximately \$6 million as of June 30, 1987, to complete this effort, but problems have prevented the timely implementation of the system. According to SSA's Management Plan for Debt Management, dated

April 1988, delays in implementing NDMS could be attributed to software deficiencies. For example, a validation of the system against functional requirements identified over 1,350 differences (including some programmer errors). The system validation occurred from July 1986 through June 1987.

The system was originally scheduled to be implemented in four phases, beginning in September 1986, with a pilot test of NDMS functions for Black Lung program overpayments. SSA recently revised its four-phase approach and subdivided it into smaller development tasks. However, at the time of our review, the NDMS project director did not have a complete set of development tasks and milestones for the system implementation.

The HHS Inspector General reported in April 1987 that NDMS delays were partially influenced by delays and adjustments to SSA's System Modernization Program efforts. Specifically, the full implementation of NDMS is dependent upon the programmatic systems for input and output regarding overpayments. Delays in implementing system modernization changes to the programmatic systems and the data communication utility program at the SSA field offices and the program service centers have caused delays in the NDMS implementation schedule.

As a result, many of SSA's long-standing debt collection problems remain unresolved. Some examples follow:

- Procedures have not been established to verify that certain returned beneficiary checks are cancelled by Treasury and posted to SSA's records.
- A repayment history and other data needed to assess late payment penalties on delinquent debts have not been established.
- SSA's accounts receivable records do not include information on adjustments and installments, beneficiaries no longer on the active rolls, and the length of time each receivable has been outstanding.
- The ability to determine whether current beneficiaries owe prior debts, which could be collected by reducing present benefits, has not been developed.

Inadequate Control Over Property

The Department does not have accurate and reliable accounting systems for controlling property. As a result, HHS lacks adequate accountability and internal control over hundreds of millions of dollars in property and does not know the total dollar value of property it owns.

Health Resources and Services Administration Lacks Accountability Over Property

The Health Resources and Services Administration's general ledger property balance was greater than its subsidiary property systems by over \$400 million as of September 30, 1986. Of this amount, approximately \$231 million related to the Indian Health Service. According to Health Resources and Services Administration officials, property changes such as dispositions were not entered into the general ledger system. They were not entered because the input document did not identify the appropriation account which is needed to accurately adjust the accounting records.

In addition, the general ledger balance for the Indian Health Service stores inventory may be overstated by as much as \$31 million—\$13 million in the medical/dental category and \$18 million in the facilities/construction category. Health Resources and Services Administration officials advised us that the \$13 million discrepancy was due largely to one field accounting point's error in closing out its year-end accounting records. They also told us that the \$18 million discrepancy was apparently due to a failure to enter withdrawals from the stores inventory into the general ledger system.

Health Resources and Services Administration officials told us that corrective actions are underway. For example, they are requiring that property reconciliations be performed and plan to have their Systems, Review, and Analysis Staff monitor this effort. Further, they informed us that in order to compensate for the differences we noted during our review and to make their property records balance, they plan to make a one time adjustment to the general ledger property account so that it agrees with the amounts in the subsidiary property records. The officials believe the property records are more accurate because the general ledger may not include all transactions such as property dispositions.

We do not feel it is good accounting practice to adjust the accounting records without at least attempting to determine the exact amount of the difference. However, considering the magnitude of the difference and the long-standing nature of the problem, in this instance, it may be the most logical approach if a physical inventory is taken and the results of the inventory are used as the basis for adjusting the accounting records. In the future, the Health Resources and Services Administration needs to ensure that (1) inventory procedures are appropriately followed, (2) all transactions are entered into the general ledger and property systems, and (3) differences between the two systems are identified and reconciled to ensure accurate financial reporting.

SSA's Subsidiary Property Systems Are Unreliable

SSA also does not have adequate control over property. Specifically, the general ledger personal property balance is not reconciled to its two subsidiary systems—the Property Accounting System, which controls personal property, and the Information Technology System Inventory System, which controls ADP-related property. As a result, there are no assurances that all property transactions are being processed by the general ledger system.

The Chief of the Accounting Operations Branch told us that it would not be efficient use of SSA resources to reconcile the amounts in the general ledger with the amounts in the two subsidiary systems in view of the problems with the Property Accounting System. Among these problems are the following:

- The system is approximately 2 months behind the general ledger in processing property transactions. (SSA has made improvements in this area since our 1984 report, Financial Management Profile: Department of Health and Human Services (GAO/AFMD-84-15, April 9, 1984), when it was experiencing a 6-month delay.)
- The system was overstated by approximately \$27 million as of September 30, 1986, due to an ADP programming error which caused the opening and closing property balances to be overstated. After we questioned the accuracy of the property balance, the Office of Materiel Resources reviewed the account balance, detected a problem, and initiated corrective action prior to the completion of our review.
- The system contains duplicate inventory information on ADP-related property. Office of Materiel Resources officials stated that they had not routinely entered data into the system on ADP-related purchases for the last 3 years. However, some ADP property remains in the Property Accounting System inventory from previous years, which duplicates information contained in the Information Technology System Inventory System.

The Information Technology System Inventory System also has problems. This system does not maintain cost information on the value of all ADP property contained in the system. We also noted that, as of September 1987, approximately 3,200 inventory items remained unreconcilable as a result of a physical inventory completed in October 1986. Initially there were over 7,000 unreconcilable items. These represent property items in SSA's inventory that either could not be located or items found during the physical inventory that were not recorded on SSA's inventory records.

In addition, the Information Technology System Inventory System was the subject of an HHS Inspector General report issued in September 1987. The Inspector General performed physical inventories at 10 randomly selected SSA sites and compared its inventory results with those maintained by the Information Technology System Inventory System. Discrepancies were noted at all 10 sites. For example, of the 115 microcomputers the Inspector General staff inventoried, only 17 appeared on the inventory listing. The report cited the lack of a policy for controlling and recording microcomputer purchases and transfers as the main reason for the discrepancies.

Furthermore, the SSA general ledger does not accurately reflect the status of disposed property. SSA policies and procedures require that a disposition form be prepared by the Office of Materiel Resources and forwarded to the Division of Finance when property is no longer required or is determined excess so that the general ledger can be adjusted. We found that the disposition form was not forwarded when ADP-related equipment was disposed.

SSA officials stated that they had assumed that the Office of Systems, which reviews and forwards the disposal actions to the Office of Materiel Resources was performing this task. An Office of Systems official, who for the last 2 years has been responsible for processing the disposal actions, informed us that he had not forwarded any disposal actions to the Division of Finance.

Our review of the disposal actions processed by the Division of Finance from January 1987 to August 1987 disclosed that ADP-related actions processed by the Office of Systems had not been received by the Division of Finance. For example, we found that several disposal actions forms processed in March 1987 pertained to ADP equipment valued at over \$520,000, which had not been received by the Division of Finance as of August 1987. When informed of this situation, an SSA financial officer agreed that SSA's general ledger account for equipment would be understated and stated that steps would be taken to correct the problem.

Discrepancies Exist in Other Operating Divisions

Besides the problems at the Health Resources and Services Administration and SSA, we noted discrepancies of over \$20 million between some of the other operating divisions' general ledger and subsidiary property systems. Specifically, as of September 30, 1986:

Appendix II
HHS Operating Divisions' Accountability and
Control Over Resources

- The Food and Drug Administration's general ledger property balance was approximately \$5.4 million greater than the supporting subsidiary property system. Of this amount, \$5.2 million represented a difference in the structures account. Agency officials were unable to explain this difference. The remaining difference of \$247,000 was attributed to a failure to record two transactions in the accounting system.
- The Office of the Secretary general ledger property balance was greater than the subsidiary property system by about \$4 million. The Acting Director of the Division of Accounting Operations told us that he did not have the staff to perform needed reconciliations.
- The Health Care Financing Administration's general ledger property balance was about \$13 million greater than the amount in its property system. We noted two potential causes of the problem. First, the general ledger uses information from the invoices, while the property system uses information from the purchase orders. The information on these two documents can contain different dollar amounts. Second, property acquisitions and dispositions noted during the taking of physical inventories are reflected only in the property system. As a result of these differences, the general ledger property balance was adjusted for about \$13 million at fiscal year-end to reflect the amount in the agency's property system, and the reasons for the differences were not determined. A Health Care Financing Administration official informed us that the administration did not reconcile property differences between the general ledger and property systems because of incompatible systems hardware. While the two systems may be incompatible, which is a problem in itself, this does not preclude a manual reconciliation of the differences to determine the correct balance.

Comments From the Department of Health and Human Services

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JUN 16 1988

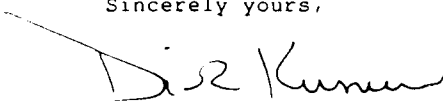
Mr. Frederick D. Wolf
Director, Accounting and
Financial Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Wolf:

Enclosed are the Department's comments on your draft report, "Financial Management: Top Management's Continued Commitment Is Needed to Correct HHS' Accounting Systems Problems." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely yours,


Richard P. Kusserow
Inspector General

Enclosure

Appendix III
Comments From the Department of Health
and Human Services

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES
ON THE U.S. GENERAL ACCOUNTING OFFICE'S DRAFT REPORT
"FINANCIAL MANAGEMENT: TOP MANAGEMENT'S CONTINUED COMMITMENT
IS NEEDED TO CORRECT HHS' ACCOUNTING SYSTEMS PROBLEMS"

GENERAL COMMENTS

We appreciate the opportunity to provide comments on this draft report. The GAO report first asserts that the Department's key accounting and related internal control systems have serious weaknesses that adversely affect the Department's ability to effectively manage its programs and operations, that appropriated funds and other financial resources are not adequately accounted for, and that financial reports are unreliable and not supported by the accounting system. Then, the GAO report recognizes that HHS has a large scale effort underway to create new financial management systems and, after basically endorsing this approach, makes some minor recommendations for improvements in the plan.

See comment 1

The position of the two basic thrusts of the GAO report unfortunately provides the reader with an overly negative view of the financial management situation in HHS. We feel it would be more productive for the report to first focus on our plan for improvements in financial management systems and then to use validated operational problems to support the need for improvements in systems and operations.

To put the Department's accounting systems into perspective, it is helpful to first have some understanding of the scope of its fiscal operations. Specifically, HHS' outlays are about 36 percent of the Federal Government's outlays of more than \$1 trillion. The accounting for these dollars is as complex as any organization in government, if not more so. HHS operates under 121 appropriations and several trust funds. Further, there are about 1,200 apportionment controls on HHS' operations, showing that HHS is an intensely complex fiscal environment, and far from any "textbook" type of operation.

See comment 2

With respect to GAO's views on HHS' plan to improve its financial management systems, we believe that the spirit of the recommendations are consistent with our plan. We take some minor exceptions to the wording of some recommendations, but these should not detract from our general concurrence with GAO's positive views of our plan to develop new financial management systems in HHS. We are also pleased to report that, at this point, all major aspects of the improvement plan are on or ahead of schedule and that our approach has the complete support of the Office of Management and Budget and the Treasury.

See comment 3

We believe that the report would be strengthened if more credit were given to several integral aspects of the Department's improvement plan. Among these are:

Appendix III
Comments From the Department of Health
and Human Services

- o The development of the Phoenix Project Plan to replace the Department's seven primary accounting systems, and the Phoenix Project Design Guidelines to identify and establish the appropriate standards for the controlled acquisition and implementation of these systems and their interfaces with the Department's other administrative and programmatic systems.
- o The appointment of a new Deputy Assistant Secretary for Finance and a major redirection of how the Department coordinates its finance and accounting activities with its operating components.
- o The initiation of system design and control efforts by HHS' operating components which will lead to the initial implementation of new core accounting system software for SSA, HCFA, HRSA, and CDC -- four of the seven primary accounting systems -- by the end of December 1988, with the initial completion of work for all seven systems by FY 1991. FDA's accounts payable software was implemented in October 1987.
- o The implementation of a formal Phoenix Project progress monitoring program with the requirement for quarterly status reports.
- o The creation of a council of Departmental Financial Management Officers (FMOs), and the establishment of a regular meeting schedule. These meetings include a status update by each FMO and are attended by Treasury and other control agency officials.
- o The initiation of formal semiannual reviews of action plans under the Federal Managers' Financial Integrity Act (FMFIA) with the Department's Under Secretary. The last review was held on May 17, 1988; the next review will be held in October.

While the report can be made much more constructive by juxtapositioning its two major thrusts, we do not completely agree with the report's negative characterization of HHS' financial operations. As we indicate in our technical comments, there are some cases with which we take factual exception and some in which corrective actions have already been taken.

Two examples of the integrity of HHS systems are those of the Health Care Financing Administration (HCFA) and the Social Security Administration (SSA), whose budgeted outlays represent about 29 percent and 62 percent, respectively, of total HHS outlays, for a total of 91 percent of all HHS outlays.

Appendix III
Comments From the Department of Health
and Human Services

The HCFA's Accounting, Reporting and Tracking (HART) system is a relatively new, state-of-the-art accounting system. Compliance with Title 2, GAO Policy and Procedures Manual for Guidance of Federal Agencies is an integral part of the HART system design to ensure the reliability and integrity of financial transactions. As recent as August 26, 1987, GAO reported on HCFA's compliance with Title 2, stating in part:

"We found the HART (HCFA's Accounting, Reporting, and Tracking) system has adequate internal controls to properly process and summarize financial information provided to it from other HCFA and Department of Health and Human Services accounting systems, as well as from the Medicare contractors and state agencies . . . financial reports and other information produced by the HART system are accurate . . . about 83 percent of the dollar volume of transactions processed by the HART system is information provided to it from other systems and sources."

Every internal and external financial report issued by HCFA is extracted from the HART system's general ledger and financial reporting system. The financial data in these reports accurately reflect HCFA's program and administrative fund activity. The data are valid, verifiable, and believed to be as reliable as any in the Federal Government. The GAO's assertions are not correct as to weak internal controls and unreliable financial reporting with regard to the HART system.

To provide a public accounting of its stewardship, SSA prepared financial statements for FY 1987, the first year such statements were prepared. These statements were audited by the Office of Inspector General. Because auditable statements had not been previously prepared, the Inspector General's opinion was limited to SSA's Combined Statement of Financial Position at September 30, 1987. To quote the Inspector General's opinion:

"In our opinion, except for the effect, if any, on the combined statement of financial position of not providing for loss contingencies arising from pending legal actions, any adjustments as might have been necessary had we been able to perform the necessary auditing procedures to satisfy ourselves as to the net book value of land, buildings, and equipment as discussed in the preceding two paragraphs, the accompanying combined statement of financial position presents fairly the financial position of the Social Security Administration at September 30, 1987, in conformity with generally accepted accounting principles for Federal agencies."

Appendix III
Comments From the Department of Health
and Human Services

COMMENTS ON GAO RECOMMENDATIONS

GAO Recommendation (1), Page 5

". . . that the Secretary of Health and Human Services closely monitor the current redesign efforts to ensure that known systems problems are corrected promptly."

HHS Comment

The Department has been closely monitoring redesign efforts for over a year. The majority of the Department's known "systems problems" will be corrected through the Phoenix Project which contemplates the replacement of the Department's seven primary accounting systems by FY 1991. To ensure close monitoring of its plans and programs, the Department has taken several steps including:

- o Initial publication of the Phoenix Project Plan in May 1987, with published updates in August 1987, December 1987, March 1988, and May 1988.
- o Initial publication of the Phoenix Project Design Guidelines in May 1987, with publication of updates in August 1987 and December 1987.
- o The implementation of a formal progress monitoring program consisting of meetings with Departmental Financial Management Officers (FMOs) every 4 to 6 weeks, and the submission of a written quarterly status report by each OPDIV.

GAO Recommendation (2), Page 37

". . . the Secretary . . . -- Direct the operating divisions to adhere to established accounting policies and procedures for performing periodic reconciliations between their accounting records and internal and external financial reports to determine the causes of differences and the correct amounts for fund balances, advances, receivables, and property."

HHS Comment

HHS concurs with this recommendation. The accounting systems to be installed under the Phoenix Project -- as reviewed and approved by OMB and Treasury -- will implement the government-wide Standard General Ledger and explicitly produce fully integrated operating reports. The Phoenix Project Design Guidelines reference both GAO and Departmental standards. Adherence to the Guidelines is an integral part of all developmental efforts and expressly a part of the appropriation

See comment 5.

Now on page 30

See comment 4

Appendix III
Comments From the Department of Health
and Human Services

restriction waiver given to each component upon Departmental approval of the component's plan.

These facts offer testimony that Departmental management has already taken action to direct its operating components to comply with GAO's recommendation, and that substantial success is being realized. The Department will continue its emphasis on adherence to established accounting policies and procedures.

Now on page 30.

GAO Recommendation (3), Page 38

". . . the Secretary . . . -- Develop written procedures for the collection of audit disallowances to ensure compliance with debt collection laws and regulations."

See comment 4.

HHS Comment

HHS concurs with this recommendation. The Department has had published procedures for years. However, these procedures were often distributed by memorandum, rather than being distributed as a formal change to the Department's Accounting Manual. The Department instituted a program to correct this practice by updating and issuing revised interim final procedures for Monetary Program and Audit Disallowances (public assistance-related) on September 30, 1987, and the procedures for "other than public assistance" on April 7, 1988. The Department expects to conclude its analysis of comments from all of its components, and to issue a formal change to the Accounting Manual, Chapter 10-41, by the end of the year.

Now on page 30

GAO Recommendation (4), Page 38

". . . the Secretary . . . -- Build upon SSA's efforts to have its financial statements prepared and audited by an independent party by expanding this effort to the other operating divisions."

See comment 4

HHS Comment

The Department concurs generally with this recommendation and will provide for this capability through the Phoenix Project when it is completed, and when the government-wide policy regarding this subject has been established. In addition, a careful consideration of the cost/benefit of preparing and auditing financial statements will be undertaken before final decisions are made.

Now on page 30

GAO Recommendation (5), Page 38

". . . the Secretary . . . -- Disclose all serious accounting system weaknesses and the actions to be taken to correct the weaknesses in the Department's Financial Integrity Act report."

Appendix III
Comments From the Department of Health
and Human Services

See comment 6.

HHS Comment

HHS does not concur with this recommendation as worded. The Department will continue to report all "material weaknesses" in its annual Financial Integrity Act Report. Since there is no definition of what is a "serious" versus "material" weakness, the Department will use the definition of "material weakness" as defined by the Congress and the OMB. The inclusion of other issues in the report is not required, and would only detract attention from those weaknesses which the Department considers to be "material."

Now on page 43.

GAO Recommendation (6), Page 53

"We recommend that the Secretary receive progress reports and periodic briefings from the Department's chief financial officer on the operating divisions efforts to implement the Phoenix Project Plan including information on slippages in cost and milestones."

See comment 7.

HHS Comment

HHS does not concur with this recommendation as worded. The Department believes that regular progress reports are better directed to the Assistant Secretary for Management and Budget who is also the Department's Chief Financial Officer. It is this official who has been delegated responsibility in this area by the Secretary. The progress of the Department's efforts to improve its finance and accounting systems is a topic of discussion in semi-annual briefings to the Under Secretary on the status of the Department's efforts under the Financial Integrity Act. As necessary, the Secretary will be personally involved in this aspect of the Department's management.

Now on page 43

GAO Recommendation (7), Page 53

". . . we recommend that the Secretary ensure that efforts to improve the Department's programmatic systems be coordinated with the system efforts under the Phoenix Plan to avoid unnecessary developmental cost and to ensure systems compatibility."

See comment 5

HHS Comment

HHS does not concur with this recommendation as worded. Department-wide accounting standards have been in effect for almost 20 years, and in this respect, HHS is unique among Executive agencies. The Department has established transaction codes, definitions, data structures, and well-defined interfacing mechanisms for transferring data from one system to another. In essence, HHS' systems efforts have already been coordinated to avoid unnecessary development cost and to ensure systems compatibility.

Appendix III
Comments From the Department of Health
and Human Services

GAO apparently believes that further integration of the Department's system improvement efforts is needed. The Department believes that the appropriate mechanisms are in place, and that further "integration" or tying together of these programs would in fact (1) increase development risk for both the accounting systems and the programmatic systems by adding a degree of complexity to the planning and executing environments of each, and (2) result in no apparent additional value to either type of system.

Appendix III
Comments From the Department of Health
and Human Services

TECHNICAL COMMENTS

1. P. 2. GAO cites in brief that "... and the Department's financial reports are unreliable and cannot be derived from the accounting systems. The Department has long recognized these problems, but past corrective actions have not been successful." HHS Comment - It is true that problems exist, and that not all processes are automated. However, GAO's inference is not correct that all reports are unreliable and that corrective actions are not underway for remaining systems problems. There was no finding by GAO asserting that the Department's reports were defective; only that not all reports were derived from the automated systems. Until automation is complete, there may be no reasonable alternative to manually assembling reports.
2. P. 3. GAO states that "... HHS does not know the amount of (1) funds it has available, (2) advances made to grant recipients, and (3) property it is responsible for controlling." HHS Comment - This statement is exaggerated and certainly misleading. As pointed out previously, corrective action is underway to address the Department's financial management problems. With regard to property management, there is an important factor which should be considered in interpreting the GAO's comments and the underlying inference that the Department is not controlling its property. In 1985 the requirement for asset capitalization changed from \$300 to \$5,000, and is likely to be increased to at least \$20,000 in the near future. In general, the out-of date-records in HHS' accounting system reflect a failure to remove appropriately, items falling between the old and the new criteria, rather than a complete loss of accountability as GAO infers. Physical inventories now in progress are expected to substantiate the Department's view. The implementation of new property management systems as part of the Phoenix Project, will also assist Departmental components in better maintenance of capital asset records in the future.
3. P. 9. The GAO report is in error regarding the SSA statistics, and should use "40" million Americans (versus 37 million) and "\$226 billion" for benefit payments (versus \$270 billion).
4. P. 18. GAO states "... [SSA's] financial management activities are fragmented and given a low priority." HHS Comment - These activities are not given a low priority. The GAO fails to mention the steps taken by the SSA Commissioner to resolve these problems. Most notably:
 - o The appointment of a Chief Financial Officer (CFO).

See comment 8.

See comment 9.

Now on page 8

See comment 10

Now on page 15

See comment 11

Appendix III
Comments From the Department of Health
and Human Services

- o The reorganization of the Social Security Administration so that finance activities are centralized and the CFO reports directly to the Commissioner.
- o The award of a contract to provide SSA with a modern, fully integrated financial management system.

SSA's recent competitively awarded contract evidences the significant effort already taken by SSA. Prior to awarding such a contract, SSA had to analyze its requirements thoroughly and document its needs in the Request for Proposal (RFP) and the many volumes of specifications incorporated in the RFP. Following the issuance of the RFP, SSA had to respond to detailed questions by potential bidders, and then, upon submission of their bids, conduct a lengthy evaluation process to ensure that its requirements would be met. Implementation begins this year with the initial operations of the core accounting system planned for September 30, 1988.

Now on page 16

See comment 12

5. P. 18. GAO states "SSA estimated that it made about \$2 billion in overpayments in 1984, but expects only a net recovery of about \$870 million, or 44 percent." HHS Comment - SSA statistics for 1984 were \$1.1 billion in recoveries (a net recovery of 58 percent); 1987 statistics were \$1.3 billion in newly identified overpayments with a net recovery equal to 77 percent. The GAO report fails to recognize SSA's progress and casts a misleading picture of its performance. SSA's statistics demonstrate a dramatic improvement in its debt management program, especially when one considers that overpayments are (1) a small fraction of benefit outlays (i.e., six tenths of one percent) and (2) are primarily caused by beneficiaries failing to report events which affect their entitlement.

Now on page 16

See comment 12

6. P. 19. GAO states ". . . SSA credited workers with \$58.5 billion less in earnings than did the Internal Revenue Service." HHS Comment - SSA has been working aggressively to ensure its records are correct. It is IRS' responsibility to reconcile the difference and report missing earnings to SSA.

Now on page 16

See comment 13

7. P. 19. GAO states ". . . HHS Inspector General issued several reports identifying serious system weaknesses in SSA's accounts receivable subsidiary systems . . ." HHS Comment - SSA has developed and is implementing an action plan to correct these deficiencies. Further, on March 31, 1988, SSA competitively awarded a \$12.3 million contract to a national public accounting firm to replace its existing accounting systems with a modern integrated financial management system. The award of this contract evidences the

Appendix III
Comments From the Department of Health
and Human Services

substantial effort already expended by SSA, and the commitment on the part of SSA management, to correct these problems.

Now on page 17.

See comment 14.

8. P. 20. GAO references its 1982 and 1988 reports on HRSA's debt collection activities, but makes no reference that (1) HRSA is in process of issuing a Request for Proposal to obtain an automated debt management system, and (2) HRSA reduced its number of National Health Service Corp open debt accounts by over 60 percent, from 3,500 to 1,386 over the period 1983-1987. In its earlier studies, GAO also failed to appreciate the fact that HRSA's primary management objective was to obtain the fulfillment of a public service commitment from the individual and its secondary objective was the return of funds loaned. HRSA has been successful in doing this. Further, GAO discussed the amount of the debt as though it was all from appropriated funds when in fact, the debt includes the assessment of "triple damages" and the associated interest on the defaulted loan; the average debt is \$160,000 with some as high as \$500,000. The effect of these multiplier factors is extremely significant. The GAO report also did not mention that HHS was instrumental in having legislation passed which had the effect of removing from the Medicaid/Medicare programs those physicians that fail to repay loans. This type of initiative encourages debtors to focus on the immediate resolution of their debts either through public service or payment.

Now on page 18.

See comment 15

9. P. 22. GAO states ". . . we found that the Health Resources and Services Administration's general ledger unexpended fund balance was \$3.1 billion more than the amount shown on the Year-End Closing Statement . . ." HHS Comment - The record submitted to Treasury was correct. The \$3.1 billion difference in unexpended balance should have been removed from the books and is part of HRSA's overall program to close such entries. On the surface, this \$3.1 billion seems a significant error. However, the problem was only a failure to post an account in a timely manner.

Now on page 53

On page 66, the GAO cites \$1.7 billion as being the same type of problem without a reference that it is part of the \$3.1 billion already mentioned. The reader of the report is mistakenly led to believe the magnitude of the problem is really \$4.8 billion. As discussed above, the Department's reports to the Treasury were correct.

Now on page 19

See comment 16

10. P. 22. GAO states ". . . Office of the Secretary's general ledger showed an unobligated fund balance of about \$111 million for the Human Development Services appropriations, whereas about \$18 million was reported as unobligated on the Year-End Closing Statement." HHS Comment - This discrepancy was due to differences in closing procedures between

Appendix III
Comments From the Department of Health
and Human Services

Headquarters and Regional operations, and the processing of late submissions. OS finance staff are continuing to work with regional staff to obtain data in a timely manner and to fully integrate the data flows of the Regional Accounting System and OS/HDS Accounting System.

Now on page 20.

See comment 16.

11. P. 24. GAO states ". . . the Office of the Secretary's general ledger showed a negative advance balance of \$2 million for one appropriation, whereas the amount in the Payment Management System was \$34 million." HHS Comment - Many of the OS problems in this area stemmed from (1) the FY 1984 conversion to a new system, and (2) OS's subsequent failure to complete a full and timely reconciliation of accounts during the conversion. OS has formed a Task Group to address this problem by developing the requisite close-out procedures and closing out old grants. This work is currently ongoing.

Now on page 20.

See comment 17.

12. P. 24. GAO states ". . . the Health Resources and Services Administration's general ledger advance balance for one appropriation was \$62 million less than what was in the Payment Management System." HHS Comment - This is a posting problem and not a matter of having lost accountability and/or control over funds. There is a delay between recording of advances in PMS and recording the same data in the Department's records. This delay is due to the fact that PMS bills the operating component for the funds they are advancing recipients. In turn, the operating component pays the bill by advancing funds from one or more of its appropriations. Subsequently, the component may adjust their advances by charging another appropriation when expenditures are reported. This is not unlike an agency being billed centrally for postage, the Federal Telecommunications System (FTS), or Standard Level User's Change (SLUC), paying the bill out of one appropriation, and then making subsequent adjustments to the appropriation accounts of the actual users. Therefore, it is inappropriate for GAO to compare a single appropriation billing by PMS to the same appropriation recording by the operating component.

Now on page 20.

See comment 18.

13. P. 25. GAO states "The Office of the Secretary is not aggressively pursuing the collection of about \$31 million in audit disallowances. ". . . As a result, millions of dollars owed the government may no longer be collectible." HHS Comment - The Department recognizes the need to improve collection efforts. Actions taken include (1) the assignment of a systems accountant to the task of analyzing the problem and devising a corrective action plan, (2) the reorganization of operational activities into three operating divisions in a new Office of Financial Operations, (3) the recruitment and selection of an experienced Office

Appendix III
Comments From the Department of Health
and Human Services

Director, and (4) the transfer of a portion of the OS grants payment workload to PMS staff. Finally, OS is now seeking a senior-level debt manager to properly oversee and direct these activities.

GAO noted also that 9 of 82 case files could not be found, but missed the point that certain records were transferred to the Family Support Administration (FSA) on October 1, 1986. (The FSA was established earlier in 1986.) Therefore, the records should not have been available in OS at the time of the audit, a year later.

At this time, 56 items remain open with balances accounting for approximately \$11.7 million. Fifty-two percent of the \$11.7 million is related to one case which is in litigation in Federal court.

Now on page 21
See comment 19

14. P. 26. GAO states "... SSA did not promptly account for and collect over \$200 million in benefit overpayments owed the government." HHS Comment - SSA has instituted a program to reduce overpayment errors. A recent study by SSA of 1987 remittances determined that 99 percent were properly credited to the appropriate trust funds with only \$2.6 million in error. The GAO repeats this same problem again on page 76, citing \$150 million in overpayments. Without a cross reference, the report gives the mistaken appearance of a \$350 million problem.

Now on page 59

Now on page 22
See comment 20

15. P. 27. GAO states "Compounding the problems ... has been its [SSA's] inability to effectively implement the National Debt Management System. ..." HHS Comment - A redrafted plan to implement this system has been developed and coordinated with the HHS Office of the Inspector General and recently submitted to the SSA Commissioner for final approval. Implementation of the plan should resolve the problems in this area.

Now on page 23

See comment 16

16. P. 27. GAO states "... discrepancies totaling over \$20 million were noted between the general ledger and subsidiary property systems of the Food and Drug Administration, the Office of the Secretary, and the Health Care Financing Administration." HHS Comments - The statement is generally correct. However, the OS portion - \$4 million - reflects problems in OS' property management efforts and corrective progress was made in FY 1987 through revitalization of the OS Working Capital Fund. FDA's portion - \$5.4 million - reflects the book value of real property, and FDA is correcting these records and will continue a program of periodic reconciliation.

HCFA's portion - \$13 million - was resolved by physical

Appendix III
Comments From the Department of Health
and Human Services

audit, and a reconciliation of HCFA's records occurred on November 13, 1986.

SSA is working to correct its property management efforts, and the Finance Office is obtaining disposal information. More important is the fact that the implementation of an efficient automated mechanism for accomplishing this activity is part of the contract awarded by SSA on March 31, 1988.

Now on page 22.

See comment 16.

P. 27. GAO states ". . . the balance in the Health Resources and Services Administration's general ledger property account was greater than that shown in its property records by over \$400 million as of September 30, 1986." HHS Comment - HRSA has instituted a program in coordination with its field organizations, to reconcile and adjust its property accounts appropriately. HRSA believes that its existing guidelines are adequate for use in this effort, and expects that a greatly improved property management program will result. The reconciliation is expected to be completed by September 30, 1988.

Now on page 23.

See comment 16.

17. P. 29. GAO states ". . . -- The Office of the Secretary's advance balance on its Report on Financial Position was \$11 billion greater than the amount in the general ledger . . ." HHS Comments - OS incorrectly included PMS-related data on its SF-220. This FY 1986 mistake was corrected, and the FY 1987 report was submitted properly.

Now on page 24

See comment 16

18. P. 29 GAO states ". . . -- The Health Resources and Services Administration's "other asset" balance on its Report on Financial Position showed a total of about \$184 million whereas the amount in the general ledger was zero. We found that \$135 million of this total was recorded in the general ledger as part of structures, . . ." HHS Comment - HRSA acknowledges the need to institute a program to reconcile its property records. This reconciliation is expected to be completed by September 30, 1988.

Now on page 24

See comment 21

19. P. 29. GAO states ". . . -- The Health Resources and Services Administration's accounts payable balance on its Report on Financial Position was about \$32 million greater than the amount in accounts payable balance from the general ledger. [HRSA] officials were unable to explain the reason for the difference." HHS Comment - HRSA advised GAO that this was the result of HRSA's delay in recording new obligations in their general ledger -- a condition which will be corrected when its new system is installed.

Now on page 38

See comment 22

20. P. 46. SSA's costs are \$12.3 for the contract recently awarded instead of the \$9.4 million shown in Table 3.2.

Appendix III
Comments From the Department of Health
and Human Services

Now on page 51.

See comment 23

21. P. 64. GAO states ". . . -- The Office of the Secretary/Human Development Services' general ledger unexpended fund balance was about \$269 million less than that reported by Treasury." HHS Comment - Until the Phoenix Project systems are fully implemented, OS has designed and is now phasing into operation an automated process to facilitate the needed reconciliations.

Now on page 51.

See comment 24.

22. P. 64. GAO states ". . . -- The Food and Drug Administration's general ledger unexpended fund balance was approximately \$39 million more than what Treasury reported as available." HHS Comment - The number was constructed by GAO from some documents not used by FDA for fund control purposes. The balances reported by the FDA to Treasury were correct. GAO comments fail to recognize the fund control mechanisms used effectively by the FDA.

Now on page 52

See comment 25

23. P. 65. GAO states "The Health Resources and Services Administration, on the other hand, arbitrarily increased advances by \$600 million in one appropriation and increased accounts payable by \$200 million and \$400 million respectively in two other appropriations . . . in order for the reports to balance." HHS Comment - The statement is not accurate. These changes were not made "arbitrarily," but were thoughtfully initiated and valid changes made by HRSA to its financial reports to correct erroneous entries in its records revealed through its own review. HHS components will continue to need to manually reconcile many entries until the necessary automated systems are implemented as part of the Phoenix Project.

Now on page 53

See comment 26

24. P. 67. GAO states ". . . -- The Health Care Financing Administration general ledger showed a negative unobligated fund balance of about \$60 million, whereas it reported about \$2 million on the Year-End Closing Statement submitted to Treasury." HHS Comment - This statement is incorrect. The copy of GAO's work papers held by HCFA attest to a \$.25 (i.e., 25 cents) difference between HCFA's TFS 2108 for FY 1986 and HCFA's general ledger.

Now on page 56

See comment 27

25. P. 72. GAO states ". . . at our request, the Department identified 2,037 open grants for which the performance period expired between January 1, 1984, and December 31, 1986." HHS Comment - Each operating component involved is now provided monthly with a list of inactive grants so that they may initiate the actions to close such grants. The Department is also developing grant closeout procedures for situations where no final report of expenses is available. These procedures will be completed and coordinated with the HHS operating components by the end of August 1988. It should be noted, however, that many of the grants GAO cites involve little or no funds.

Appendix III
Comments From the Department of Health
and Human Services

Now on page 59

See comment 16

Now on pages 29 and 43

Now on page 29

Now on page 30

Now on page 29

Now on page 38

Now on page 40

Now on page 41

See comment 28

26. P. 77. GAO states "... the Inspector General reported that during the period January 1978 through December 1984, SSA did not collect approximately \$54 million in accounts receivable due to employees' errors and failure to record overpayment data in its Recovery of Overpayment, Accounting, and Reporting System." HHS Comment - SSA acknowledges its need to resolve this problem and has been negotiating its work priorities with the OIG. SSA expects to reach agreement with the OIG on an implementation strategy before the end of FY 1988.

27. ps. 36 & 47. The GAO report is internally inconsistent. For example, page 36 states that "It is essential that the Department's Financial Integrity Act report fully disclose all of its accounting system weaknesses," while page 38 advises HHS to "Disclose all serious accounting system weaknesses," and page 37 requests "full disclosure."

Also, page 47 directs HHS to "integrate programmatic system . . . enhancement efforts with the Phoenix Project Plan," while page 54 advises HHS that its "programmatic systems be coordinated with the system efforts under the Phoenix Plan. . .," and page 51 advises HHS to "... move closer to developing a single integrated system which would serve its financial management needs and its managers." However, see our comment to recommendation 7.

The following are GAO's comments on the Department of Health and Human Services' letter dated June 16, 1988.

GAO Comments

1. No change to the report is needed. We believe that an overview of the Department's financial management problems is needed (chapter 2) before the reader can appreciate the Department's current efforts to improve its financial management operations under the Phoenix Project Plan (chapter 3).
2. Discussed in agency comments sections of executive summary and chapter 2.
3. Discussed in agency comments sections of executive summary and chapter 3.
4. Discussed in agency comments section of chapter 2.
5. Discussed in agency comments section of chapter 3.
6. The recommendation was revised to refer to the reporting of material weaknesses under the Financial Integrity Act.
7. In light of the Department's previously unsuccessful system enhancement efforts, it is vitally important that the Secretary actively participate at key decision points throughout the development and implementation of the Phoenix Project Plan.
8. The report has been amended to state that many of the Department's reports are unreliable. As indicated in chapter 2, much of the information included in the operating divisions' Year-End Closing Statements and Reports on Financial Position could not be traced back to their appropriate general ledger accounts. These key reports should give management an accurate assessment of the results of program and administrative operations and be derived directly from data in the general ledger, as required by the Comptroller General's accounting principles and standards. We stated that the Department's reports must be supported by the general ledger, not that they must be from an automated system. We did, however, note that while past system enhancement efforts were unsuccessful, corrective actions are underway. Chapter 3 of the report discusses the Department's current initiatives to improve its accounting systems.

9. Based upon the dollar differences we identified in appropriation fund balances and in advances to grant recipients and the recurring nature of some of these problems, we believe that the report accurately reflects the status of the Department's accounting systems in these areas. We do not agree with the Department's contention that the property problems are merely the result of a change in capitalization criteria. For example, at the Health Care Financing Administration, the accounting and property systems used different information to record the dollar value of property acquired, and property acquisitions and dispositions noted during the taking of physical inventories were recorded in the property system but not in the accounting system. Furthermore, in other sections of its comments (see comments 16 and 18 on pages 77 and 78) the Department agreed that problems in its accountability over property exist and stated that corrective actions were underway to correct the problems.

10. Report revised to reflect the SSA statistics provided by the Department.

11. Report changed to indicate that SSA has appointed a Chief Financial Officer and has centralized all finance activities within the Office of the Chief Financial Officer. See also note 11 on page 38 of the report.

12. SSA statistics reflecting actual recoveries for 1984 were added to the report. The report has also been amended to reflect the need for SSA and the Internal Revenue Service to work together in reconciling the differences in employees' earning records.

13. Report changed to indicate that SSA has developed and is implementing an action plan to correct these deficiencies.

14. No change to the report is needed. Efforts to enhance the Health Resources and Services Administration's debt collection system are discussed on page 35.

15. We do not agree with the Department's contention that the \$3.1 billion difference in the unexpended fund balance was due merely to a failure to post an account in a timely manner. During our review, we provided Health Resources and Services Administration officials with schedules that identified the differences between the general ledger and the Year-End Closing Statement by fiscal year and appropriation. Our schedules showed that 28 appropriation accounts are involved. Health Resources and Services Administration officials were unable to explain

these differences because the required reconciliations to determine the specific causes of the differences had not been performed. In addition, the Director of Fiscal Services of the Health Resources and Services Administration acknowledged that the problem has existed since their current accounting system was implemented approximately 10 years ago.

Based upon the Department's comments, it is unclear if the required reconciliations between the Health Resources and Services Administration's accounting records and Treasury's records have been performed. Until the reconciliations are completed, we question the Department's ability to unequivocally state that the amounts reported to Treasury are correct.

The report was amended to show that the difference in unobligated funds is part of the difference in unexpended funds.

16. No change to the report needed.

17. While the posting problems may have contributed to the \$62 million difference between the Health Resources and Services Administration's general ledger advance balance for one appropriation and what was recorded in the Payment Management System, several other factors noted during our review could have contributed to the differences. For example, we noted unsupported adjustments to advances and untimely grant closeouts. Since the Health Resources and Services Administration did not perform periodic reconciliations between the two systems, it would not know the exact cause of the difference. As discussed in the report, periodic reconciliations of the differences between the two systems should be performed to determine the cause of the difference and the correct amount, thereby adding integrity to HHS' financial management operations.

18. During our review, we asked HHS officials to locate the nine missing case files. Personnel in three offices within the Office of the Secretary that were responsible for the collection of audit disallowances could not locate the files. Also, the Grants Accounting Branch was unable to ascertain if the files had been transferred because records were not maintained to show when cases arrived and or were processed. The Department needs to maintain accurate records on the location of these cases in order to ensure that collection efforts are being initiated in an expeditious manner.

In addition, we compared the September 30, 1986, report listing the 82 audit disallowance cases with a similar report dated May 31, 1987, and found that the nine missing cases were listed on both reports. These two reports were generated by the Office of the Secretary accounting system. Therefore, if the nine cases had been transferred to the Family Support Administration, the accounting for these cases should not have remained in the Office of the Secretary accounting system—8 months after the start of the fiscal year—when the Health Resources and Services Administration assumed the accounting responsibilities.

19. A cross-reference to appendix II, which offers a more detailed explanation of the \$200 million in benefit overpayments by SSA, was added to the report to avoid the potential misinterpretation.

20. Report changed to state that a redrafted plan to implement the National Debt Management System has been submitted to the Commissioner of SSA.

21. No change to the report is needed. On several occasions, we asked Health Resources and Services Administration officials to explain the \$32 million difference but they were unable to do so. Our last attempt to obtain an explanation for the difference occurred on November 11, 1987.

22. Report amended to reflect SSA's actual cost for the contract awarded.

23. Report changed to reflect efforts underway in the Office of the Secretary to perform needed reconciliations until the Phoenix Project systems are fully implemented.

24. We used the Food and Drug Administration's general ledger balance as of September 30, 1986, and the corresponding Year-End Closing Statement to identify the \$39 million difference. The Year-End Closing Statement should be supported by the general ledger. The report does not specify which amount is correct but rather, that a difference exists.

During our review, the Chief of the Accounting Branch agreed that a \$39 million difference existed for the reasons cited in our report. If the balance reported to Treasury is correct, then the Food and Drug Administration needs to take prompt action to correct its general ledger balance.

Appendix III
Comments From the Department of Health
and Human Services

25. The adjustments made to the financial reports—Year-End Closing Statement and Report on Financial Position—were not supported by amounts recorded in the general ledger. The HHS operating division referred to in the Department's comments did not reconcile its unexpended fund balances with the amounts reported by Treasury to determine the exact cause of the differences and to ascertain the correct amount that should be reported to Treasury. The Health Resources and Services Administration, therefore, made unsupported compensating adjustments to Treasury reports.

26. Health Care Financing Administration officials were provided several schedules listing unobligated fund balance differences between the general ledger and Year-End Closing Statement. The difference we cited in our report relates to an appropriation different from the one referred to by HHS in its comments. During our review, we discussed this matter with Health Care Financing Administration accounting personnel, and they agreed that the difference cited in the report was accurate.

27. Report amended to reflect efforts underway to address grant closeout problems cited in the report.

28. Report changed to clarify that material weaknesses should be reported under the Financial Integrity Act and that the Secretary needs to integrate the Department's programmatic system enhancement efforts with those under the Phoenix Project Plan.